

## Independent Auditors' Report on Financial Statements and Supplementary Information

Members of the Legislative Audit Committee:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Colorado State University System, State of Colorado (the System), as of and for the years ended June 30, 2012 and 2011, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Colorado State University Foundation, the discretely presented component unit. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the discretely presented component unit, are based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of Colorado State University Foundation, the discretely presented component unit of the System, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Colorado State University System, State of Colorado, are intended to present the financial position, and the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities and the discretely presented component unit of the State of Colorado that is attributable to the transactions of the System. They do not purport to, and do not, present fairly the financial position of the State of Colorado as of June 30, 2012, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the Colorado State University System, State of Colorado, as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Members of the Legislative Audit Committee:

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2012, on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other postemployment benefit information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

November 19, 2012

**Colorado State University System**  
Management's Discussion and Analysis  
Years Ended June 30, 2012 and 2011  
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**Management's Discussion and Analysis**

This section of the financial report presents a discussion and analysis of the financial performance of the Colorado State University System (the System) for the fiscal years ended June 30, 2012 and 2011. The System includes Colorado State University (CSU), Colorado State University Pueblo (CSU-Pueblo), and Colorado State University Global Campus (CSU-Global). This discussion provides an analysis of the System's financial activities based on currently known facts, decisions, or existing conditions. This analysis should be read in conjunction with the System's financial statements and notes thereto, which are also presented in this document.

**Financial Highlights**

- As a result of the economic downturn experienced across the United States over the past four years, State Fiscal Stabilization Funds (SFSF), in the form of a federal grant from the U.S. Department of Education, were granted to the State of Colorado to offset such reductions in state funding primarily to local educational agencies (K-12) and institutions of higher education. This funding source was restricted for use in supporting educational and general expenditures in such a manner as to mitigate the need to raise tuition and fees for in-state residents. In fiscal year 2010, the System received \$81.2 million in SFSF but only \$6.0 million in 2011 as the funding mechanism ended early in that year. As a result of the loss of SFSF funding in 2011, the State of Colorado replenished a portion of its earlier funding to the System in the amount of \$60.3 million. Of this \$60.3 million, \$48.8 million related to the fee for service contract with the remaining \$11.5 million increase resulting in the reinstatement of the College Opportunity Fund stipend from \$44 to \$62 per credit hour. Through the use of the SFSF funding and traditional State funding mechanisms, the System has received a total \$146.9 million from the State of Colorado in fiscal year 2010 and this amount declined to \$132.0 million in 2011. In fiscal year 2012, the amount further declined to \$106.5 million, resulting in an overall State budget reduction to the System of \$25.5 million.
- The Colorado State Legislature establishes spending authority to the System in its annual Long Appropriations Bill. The Long Bill appropriated funds include an amount from the State of Colorado's College Opportunity Fund. In prior years, the annual appropriations bill included certain cash revenues from the student share of tuition and fees. For fiscal year 2012 and 2011, appropriated expenses in the System were within the authorized spending authority. For fiscal years 2012 and 2011, the System had a total appropriation of \$106.5 million and \$126.0 million, respectively. For fiscal years 2012 and 2011, the System's appropriated funds consisted of \$38.6 million and \$38.4 million, respectively, received from students that qualified for stipends from the College Opportunity Fund and \$67.9 million and \$87.6 million, respectively, as fee for service contract revenue. All other revenues and expenses reported by the System represent non-appropriated funds and are excluded from the annual appropriations bill. Non-appropriated funds include tuition and fees, grants and contracts, gifts, indirect cost recoveries, auxiliary revenues and other revenue sources.
- In fiscal year 2012, the System realized a \$2.4 million increase in its restricted investments. The majority of these investments are held for the benefit of CSU by the Colorado State University Foundation.

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- The assets of the System exceeded its liabilities at June 30, 2012 by \$886.2 million (net assets). Of this amount \$108.2 million is restricted for purposes which the donor or grantor or other external party intended, and \$576.0 million is related to investments in capital assets, net of related debt. The remaining \$202.0 million is unrestricted and may be used to meet the System's ongoing obligations. Although unrestricted net assets are not externally restricted, they may be internally designated by the System's administration for various purposes.
- The System's net assets increased \$71.9 million during fiscal year 2012. Of this amount, \$47.6 million and \$27.0 million relate to increases in capital assets, net of related debt and unrestricted net assets, respectively. \$2.7 million relates to a decrease in donor/grant or restricted net assets.
- On March 1, 2012, the System issued \$126.2 million in System Enterprise Revenue Bonds that will mature in varying annual amounts to March 2044 with interest rates varying from 2.0 to 5.0 percent.
- On May 1, 2012, the System issued \$59.5 million in System Enterprise Revenue Refunding Bonds that will mature in varying annual amounts to March 2035 with interest rates ranging from 0.7 to 5.0 percent.
- In 2012, CSU entered into a service agreement with INTO University Partnerships Limited (IUP) whereby INTO CSU, LLC, a limited liability company jointly owned by Colorado State University Research Foundation (CSURF) and INTO USA, LLC will manage an international student center, located on campus, and, in connection with the services of IUP, be the exclusive provider of marketing and student recruitment services for INTO CSU programs. INTO CSU, LLC offers a variety of undergraduate and graduate academic Pathway programs as well as a range of English language programs designed to provide foreign students the opportunity to increase their English skills to the level necessary to successfully matriculate into undergraduate or graduate programs. For the 2012 fall semester, 344 students are registered in the INTO CSU programs.

**The Basic Financial Statements**

The basic financial statements are designed to provide readers with a broad overview of the System's finances and are comprised of three basic statements.

The statements of net assets present information on all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the System is improving or deteriorating.

The statements of revenues, expenses and changes in net assets present information showing how the System's net assets changed during the two most recent fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., the payment for accrued compensated absences, or the receipt of amounts due from students and others for services rendered).

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The statements of cash flows are reported on the direct method. The direct method of cash flows reporting portrays cash flows from operating, noncapital financing, capital and related financing, and investing activities.

The System reports its activity as a business-type activity using the economic resources measurement focus and the accrual basis of accounting. The System is a blended component unit of the State of Colorado.

The notes to basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes provide information regarding both the accounting policies and procedures the System has adopted as well as additional detail of certain amounts contained in the basic financial statements. The notes to basic financial statements follow the basic financial statements.

Management's discussion and analysis focuses on the primary government, which is the Colorado State University System.

**Financial Analysis**

The statements of net assets present the assets, liabilities, and net assets of the Colorado State University System as of the end of the fiscal year. The System assets exceeded liabilities resulting in net assets at June 30, 2012 and 2011 of \$886.2 million and \$814.4 million, respectively. The majority (65 percent) of the System's net assets are invested in capital assets (e.g., land, buildings and equipment), net of related debt. These assets are used to provide services to students, faculty and administration. Consequently, these assets are not available to fund future spending.

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**Summary of Net Assets**  
(Amounts expressed in thousands)

	June 30		
	2012	2011	2010
Current assets	\$ 512,436	435,034	383,900
Noncurrent assets, including capital assets of \$1,065,909, \$952,732 and \$911,761, respectively	1,320,700	1,130,333	1,020,267
Total assets	<u>\$ 1,833,136</u>	<u>1,565,367</u>	<u>1,404,167</u>
Current liabilities	\$ 221,780	164,519	165,613
Noncurrent liabilities	725,117	586,491	482,344
Total liabilities	<u>\$ 946,897</u>	<u>751,010</u>	<u>647,957</u>
Net assets:			
Invested in capital assets, net of related debt	\$ 575,988	528,366	519,269
Restricted	108,209	110,945	101,014
Unrestricted	202,042	175,046	135,927
Total net assets	<u>\$ 886,239</u>	<u>814,357</u>	<u>756,210</u>

- The \$267.8 million increase in System assets in 2012 over that of 2011 is related to increases in both current and noncurrent assets of \$77.4 million and \$190.4 million, respectively. Current assets increased primarily due to an increase in cash and cash equivalents of \$44.1 million (significant increases: investments \$7.7 million, plant fund cash \$3.6 million, recharge centers \$5.9 million, OPEB accounts \$4.1 million), an increase in grant and other accounts receivable of \$28.6 million relating to an increase in forest fire activity within the State of Colorado in 2012, and student accounts receivable of \$3.5 million due to an increase in tuition rates. The increase in noncurrent assets is due to \$74.2 million in restricted cash and cash equivalents (relating to the unspent proceeds of \$126.2 million in bonds issued during the current year to support construction activities), \$2.4 million in restricted investments, \$77.2 million in construction in progress (Engineering II building - \$39 million, Morgan Library expansion - \$16 million, and Parmalce 4<sup>th</sup> floor addition - \$13.3 million), \$40.9 million in equipment for an in-kind gift of software for the University's EcoCAR program, and \$4.6 million in land and land improvements, which is offset by a decline in buildings and improvements of \$8.7 million and library materials of \$3.1 million. The changes in construction in progress, buildings and improvements, and land improvements are discussed within the capital assets portion of this document. The \$161.2 million increase in System assets in 2011 over that of 2010 is related to increases in both current and noncurrent assets of \$51.1 million and \$110.1 million, respectively. Current assets increased primarily due to an increase in cash and cash equivalents of \$38.2 million, an increase in grant and other accounts receivable of \$12.2 million, and an increase in inventories of \$1.3 million. The majority of the increase in noncurrent assets is related to increases of \$68.1 million in restricted cash and cash equivalents, \$2.3 million in restricted investments, \$231.8 million in buildings and improvements, \$5.6 million in equipment, and \$3.6 million in land improvements, which is offset by a decline in construction in progress of \$197.6 million and library materials of

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\$3.2 million. The changes in construction in progress, buildings and improvements, and land improvements are discussed within the capital assets portion of this document. The increase in restricted cash and cash equivalents is the result of new bond proceeds to support construction activities.

- In 2012, total liabilities increased \$195.9 million. Current liabilities increased \$57.3 million due to accruals for fire suppression activities. Noncurrent liabilities increased \$138.6 million due to the issuance of \$126.2 million in bonds in 2012. In 2011, total liabilities increased \$103.1 million, which is primarily related to increases in noncurrent liabilities of \$95.0 million in bonds payable, \$5.3 million in deposits held for others, and \$4.3 million in other noncurrent liabilities which is offset by a decline in current liabilities of \$1.1 million.

The statements of revenues, expenses and changes in net assets report the results of operating and nonoperating revenues and expenses during the year and the resulting increase or decrease in net assets at the end of the fiscal year.

**Summary of Revenues, Expenses and Changes in Net Assets**  
(Amounts expressed in thousands)

	Year Ended June 30		
	2012	2011	2010
Operating revenues:			
Tuition and fees, net	\$ 339,662	296,884	253,822
State fee for service revenue	67,932	87,610	38,798
Grants and contracts	332,520	293,484	265,990
Auxiliary enterprises	139,380	134,883	125,249
Other	31,907	28,815	28,978
Total operating revenues	<u>911,401</u>	<u>841,676</u>	<u>712,837</u>
Operating expenses:			
Instruction	232,346	222,891	226,367
Research	186,611	182,451	175,960
Public service	136,907	97,868	81,757
Academic support	62,629	58,373	54,625
Student services	36,241	33,109	29,387
Institutional support	47,890	41,915	45,126
Operation and maintenance of plant	59,576	52,837	54,403
Scholarships and fellowships	16,114	16,608	16,491
Auxiliary enterprises	125,718	119,083	111,248
Depreciation	66,414	54,290	47,593
Total operating expenses	<u>970,446</u>	<u>879,425</u>	<u>842,957</u>
Operating loss	<u>(59,045)</u>	<u>(37,749)</u>	<u>(130,120)</u>

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	Year Ended June 30		
	2012	2011	2010
Nonoperating revenues:			
State appropriations	2,450	5,700	6,300
State Fiscal Stabilization Fund	-	6,030	81,195
Federal nonoperating grants and contracts	37,346	36,493	27,496
Other nonoperating revenues, net	24,504	18,237	27,280
Net nonoperating revenues	64,300	66,460	142,271
Income (loss) before other revenues (expenses)	5,255	28,711	12,151
Other revenues (expenses):			
State capital contributions	1,644	14,049	13,832
Capital grants	10,194	7,942	12,110
Capital gifts	51,532	4,931	5,813
Payments (to)/from governing boards or other institutions	(220)	213	(181)
Additions (reductions) to permanent endowments	2,324	2,301	1,170
Total other revenues	65,474	29,436	32,744
Gain on insurance recovery	1,153	-	-
Increase in net assets	71,882	58,147	44,895
Net assets:			
Net assets, beginning of year	814,357	756,210	711,315
Net assets, end of year	\$ 886,239	814,357	756,210

- The System experienced a \$59.0 million, \$37.7 million, and \$130.1 million loss from operations in fiscal years 2012, 2011, and 2010, respectively. The operating loss in 2012 was offset by net nonoperating and other revenues of \$129.8 million which primarily included \$2.5 million in state appropriations, \$83.5 million in gifts and capital gifts, \$6.8 million in investment income, \$11.8 million in state capital contributions and capital grants, \$37.3 million in federal nonoperating grants and contracts, \$2.3 million in permanent endowments, and \$4.5 million in other nonoperating revenues all of which was offset by \$18.7 million in interest expense on capital debt. The state appropriations of \$2.45 million included \$1.0 million for forest restoration and \$1.45 million for Healthy Forests – Vibrant Communities. The operating loss in 2011 was offset by net nonoperating and other revenues of \$95.9 million which primarily included \$5.7 million in state appropriations, \$6.0 million in State Fiscal Stabilization Funds, \$29.9 million in gifts and capital gifts, \$6.9 million in investment income, \$22.0 million in state capital contributions and capital grants, \$36.5 million in federal nonoperating grants and contracts, \$2.3 million in permanent endowments, and \$4.2 million in other nonoperating revenues all of which was offset by \$17.8 million in interest expense on capital debt. The state appropriations of \$5.7 million included \$3.25 million for wildfire preparedness, \$1.0 million for forest restoration, and \$1.45 million for Healthy Forests – Vibrant Communities. The operating loss in 2010 was offset by net nonoperating and other revenues of \$175.0 million which included \$6.3 million in state appropriations, \$81.2 million in State Fiscal Stabilization Funds, \$30.3 million in gifts and capital gifts, \$7.6 million in investment income, \$25.9 million in state capital contributions and capital grants, \$27.5 million in federal nonoperating grants and contracts, \$1.1 million in permanent endowments, and \$4.2 million in other nonoperating revenues all of which was offset by \$9.1



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million in interest expense on capital debt. The state appropriations of \$6.3 million included \$3.25 million for wildfire preparedness, \$1.0 million for forest restoration, \$1.45 million for Healthy Forests – Vibrant Communities, and \$600 thousand for the Wildfire Emergency Fund.

- Fiscal year 2012 System operating revenues increased \$69.7 million in relation to prior year levels. This is primarily attributable to a \$42.8 million increase in tuition and fee revenue, \$39.0 million increase in grants and contracts, and a \$4.5 million increase in auxiliary enterprises revenue which are offset by a \$19.7 million decrease in state fee for service. Fiscal year 2012 System operating expenses increased \$91.0 million in relation to prior year levels. This is primarily due to a \$39.0 million increase in public service related to an active fire season in the State of Colorado. The remaining increase is due to smaller increases and decreases in the other operating expense lines.
- Fiscal year 2012 System net nonoperating revenues decreased \$2.2 million, which is primarily attributable to the reduction of \$6.0 million associated with the SFSF. In addition, state appropriations decreased \$3.3 million due to a lack of additional funding for the Wildfire Emergency Fund. The increases in federal nonoperating grants and contracts and other nonoperating revenues are offset by an increase in interest expense on capital debt and a decrease in investment income.
- Other revenues increased \$36.0 million in fiscal year 2012. This increase was primarily due to a \$46.6 million increase in capital gifts offset by a \$12.4 million decrease in state capital contributions.
- Fiscal year 2012 also included an extraordinary item which provided a \$1.2 million gain relating to a fire that destroyed the equine reproduction facility in July 2011 due to insurance proceeds exceeding the net book value of the assets.

**Capital Assets and Debt Administration**

At June 30, 2012, the System had approximately \$1.07 billion invested in capital assets, net of accumulated depreciation of \$656.5 million. At June 30, 2011, the System had approximately \$952.7 million invested in capital assets, net of accumulated depreciation of \$598.4 million.

Depreciation charges were \$66.4 million and \$54.3 million for the years ended June 30, 2012 and 2011, respectively.

During the fiscal year ended June 30, 2012, the System received \$1.6 million of state capital contributions for capital construction projects. Of this amount, \$1.3 million related to the remodel of the Academic Resource Center/University Library at CSU-Pueblo. The remaining is the CSU portion with \$256 thousand being utilized to replace the Environmental Control System, \$67 thousand to revitalize the CSU Clark Building, \$30 thousand to improve the main campus sanitary sewer system, and \$7 thousand to the replacement of the north line.

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A breakdown of assets by category, net of accumulated depreciation is provided below.

**Capital Assets, Net of Accumulated Depreciation**  
(Amounts expressed in thousands)

	June 30		
	2012	2011	2010
Nondepreciable land and land improvements	\$ 24,448	19,835	19,677
Land improvements	34,430	32,449	28,839
Buildings and improvements	771,395	780,062	548,297
Leasehold improvements	889	1,108	576
Equipment and software	103,759	62,861	57,301
Collections	2,617	2,195	2,024
Library materials	12,713	15,790	19,031
Construction in progress	115,658	38,432	236,016
	<u>\$ 1,065,909</u>	<u>952,732</u>	<u>911,761</u>
Total capital assets, net			

In 2012 capital assets, net increased \$113.2 million. This increase is primarily attributable to a \$2.0 million increase in land improvements, a \$40.9 million increase in equipment and software, and a \$77.2 million increase in construction in progress, offset by an \$8.7 million decrease in buildings and improvements and a \$3.1 million decrease in library materials. The increase in land improvements is largely attributed to the completion and capitalization of the CSU Hughes Stadium Landscaping in the amount of \$1.8 million. The increase in equipment and software is attributed to an in-kind gift of software to be used in the CSU EcoCAR program valued at \$44.5 million. These costs are offset by depreciation expense in the amount of \$17.5 million. In 2011, several projects were completed and capitalized totaling \$176.0 million, however only \$18.8 million was completed and capitalized in 2012, including the CSU LSC Theatre Renovation for \$6.5 million, CSU CDR Renovation for \$1.8 million, and CSU VTH Roof Replacement for \$1.7 million, as well as several other smaller projects. There were also four buildings directly purchased for a total of \$1.1 million. The increase in construction in progress is due to the buildup of several projects that are on-going primarily at CSU including the modernization of Corbett Exterior with a balance of \$2.5 million, Research Innovation Center Imaging Suite Buildout with a balance of \$2.8 million, Braiden 4<sup>th</sup> Floor Addition with a balance of \$3.6 million, Parmelee 4<sup>th</sup> Floor Addition with a balance of \$13.3 million, Engineering II with a balance of \$39.0 million, and the Morgan Library Expansion with a balance of \$16.0 million. The decrease in physical library materials is attributed to the movement toward virtual library material. Less physical materials are being purchased and more physical volumes are being withdrawn from the collection.

In 2011 capital assets, net increased \$41.0 million. This increase is primarily attributable to a \$3.6 million increase in land improvements, a \$5.6 million increase in equipment and software, and a \$231.8 million increase in buildings and improvements, offset by a \$197.6 million decrease in construction in progress. The increase in buildings and improvements is primarily related to the completion and capitalization of the CSU projects including the Research Innovation Center for \$57.1 million, the Behavioral Science Building for \$43.8 million, Diagnostic Medicine Center for \$42.3 million, Student Recreation Center for \$39.4 million, Clark Building for \$6.0 million, Ingersoll and Edwards Halls Exterior Revitalization for \$1.9 million, Corbett Hall Fire Suppression for \$1.5 million, CIRA Building Addition for \$1.5 million, ACNS Cooling Backup Chiller for \$1.1 million, and several other smaller

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projects on the CSU campus. These costs are offset by depreciation expense in the amount of \$25.5 million. The decrease in construction in progress is due to the completion of several large projects that had been on-going for the last few years, and were moved from construction in progress to buildings and improvements in fiscal year 2011. The CSU projects involved are the Research Innovation Center which had a prior year construction in progress balance of \$46.5 million, the Diagnostic Medicine Center prior year balance of \$42.0 million, Behavioral Science Building prior year balance of \$36.3 million, Student Recreation Center prior year balance of \$31.3 million, and Clark Building prior year balance of \$4.7 million, as well as several other smaller projects. The increase in land improvements is largely attributed to the completion and capitalization of a project to replace a steam and condensate line on the CSU campus, with total costs of \$2.6 million.

The System had capital construction commitments outstanding of approximately \$57.7 million at June 30, 2012. The total commitment at CSU was \$57.6 million and included approximately \$19.6 million for the Engineering II Building, \$9.6 million for the Braiden Hall 4<sup>th</sup> Floor Addition, \$4.4 million for the Lory Student Center Revitalization, \$3.7 million for the Research Innovation Center Imaging Suite, \$3.2 million for the Academic Village North, \$2.9 million for the Corbett Hall Exterior Modernization Phase II, \$2.7 million for Equine Reproduction Lab Building Replacement, \$2.1 million for the Parmelee Hall 4<sup>th</sup> Floor Addition, \$1.2 million for the Animal Sciences Building Renovation, and \$1.1 for the Library-Hartshorn Parking Lot as well as \$7.1 million for numerous smaller CSU projects. The remaining commitment of \$60 thousand at CSU-Pueblo was related to the Academic Resources Center Remodel.

The System had \$650.3 million and \$515.4 million of debt outstanding at June 30, 2012 and 2011, respectively.

**Summary of Debt**  
(Amounts expressed in thousands)

	June 30		
	2012	2011	2010
Debt outstanding:			
Revenue bonds, certificates of participation	\$ 643,559	508,697	413,268
Capital lease obligations	6,711	6,737	6,612
	<u>\$ 650,270</u>	<u>515,434</u>	<u>419,880</u>

On March 1, 2012, the System issued \$126.2 million in System Enterprise Revenue Bonds, Series 2012 A. The proceeds from the sale of the Series 2012 A will be used to pay or reimburse in part the costs of constructing, improving and equipping certain housing, classroom and laboratory and other campus facilities at the CSU main campus in Fort Collins. The improvement projects at CSU include the Lory Student Center Revitalization, Academic Village North, Animal Sciences Building Expansion, and Engineering II Building. Proceeds will also be used to acquire the University Village at Walking Stick student housing facility at CSU-Pueblo. The bonds bear interest rates from 2.0 to 5.0 percent with final maturity falling in 2044.

On May 1, 2012, the System issued \$59.5 million in System Enterprise Revenue Refunding Bonds, Series 2012 B, C. The proceeds from the sale of the Series 2012 B, C were used to advance refund all of the System's Series 2003 A and 2003 B Bonds and a portion of the System's 2005 B and 2007 A Bonds.

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On August 12, 2010, the System issued \$98.9 million in System Enterprise Revenue Bonds, Series 2010 A-C. The proceeds from the sale of the Series 2010 A-C are being used to defray the costs of constructing, acquiring, renovating, expanding, and equipping certain facilities at CSU. The improvement projects include the Engineering II Building, the Library Expansion, the Braiden and Parmelee Hall Renovations, the Lory Theatre Renovation, and the Classroom Renovations at CSU. The bonds bear interest rates from 4.0 to 6.1 percent with final maturity falling in 2040.

Net proceeds of the above mentioned Series 2012 B, C and previous Series 2007 B were placed in an escrow account to purchase U.S. Treasury Securities. The principal and interest from the U.S. Treasury Securities is being used to repay the refunded bonds which are considered to be defeased. The 2007 B Series current refunded bonds redeemed include Colorado State University Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds, Series 1996 and Series 1997, Colorado State University Research Building Revolving Fund Enterprise Revenue Bonds, Series 1997 and Series 2001, and Colorado State University Certificates of Participation, Series 1997.

The 2007 B Series advance refunded bonds redeemed include Colorado State University Student Sports Recreational Facilities Revenue Bonds, Series 1998. Remaining defeased obligations of \$70.5 million related to the Series 2012 B, C and Series 2007 B include advance refunded Colorado State University Enterprise System Refunding and Improvement Revenue Bonds, Series 2003 A (\$7.0 million), Colorado State University Enterprise System Revenue Bonds, Series 2003 B (\$17.7 million), Colorado State University Research Building Revolving Fund Enterprise Revenue Bonds, Series 2005 A (\$6.7 million), Colorado State University Enterprise System Revenue Bonds, Series 2005 B (partial refund, \$12.2 million), and Colorado State University System Enterprise Revenue Bonds, Series 2007 A (partial refund, \$26.9 million). The Escrow Agent will pay the debt service requirements on each of the remaining refunded bonds on each of their scheduled payment dates through and including; for the Series 2003 A, March 1, 2013 and will redeem those maturing on March 1, 2014 and thereafter, at a redemption price equal to 100 percent of par (\$5.7 million) on March 1, 2013; for the Series 2003 B, March 1, 2013 and will redeem those maturing on March 1, 2014 and thereafter, at a redemption price equal to 100 percent of par (\$17.3 million) on March 1, 2013; for the Series 2005 A, December 1, 2015 and will redeem those maturing on December 1, 2016 and thereafter, at a redemption price equal to 100 percent of par (\$4.0 million) on December 1, 2015; for the 2005 B Bonds, March 1, 2015 and will redeem those maturing on March 1, 2017 and thereafter, at a redemption price equal to 100 percent of par (\$12.2 million) on March 1, 2015; and for Series 2007 A, March 1, 2017 and will redeem those maturing on March 1, 2021 and thereafter, at a redemption price equal to 100 percent of par (\$26.9 million) on March 1, 2017.

**Economic Outlook/Future of the Colorado State University System**

The Colorado State University System is a group of higher education institutions in the State of Colorado run under one common leadership structure as identified previously.

The System receives revenues from numerous sources including students who receive a stipend from the State to cover a portion of their higher education expenses. In many states, this funding is appropriated directly to the institution. In Colorado, it is appropriated for use by the student.

**Colorado State University System**  
Management's Discussion and Analysis  
Years Ended June 30, 2012 and 2011  
(Unaudited)

The State General Fund revenue is projected on a quarterly basis by the Legislative Council and the Office of State Planning and Budgeting. The most recent projection by Legislative Council (September 2012) estimates that the State General Fund revenue will increase in fiscal year 2013 by 2.8 percent from the previous fiscal year. The General Assembly will have \$589.8 million, or 7.0 percent, more to spend in fiscal year 2013-14 than the amount budgeted for fiscal year 2012-13; this amount does not account for expenditure pressures resulting from inflation and caseload growth. The State's overall budgetary situation remains governed by the three constitutional budgetary provisions: The Taxpayer Bill of Rights (TABOR), the Gallagher Amendment on property taxes, and Amendment 23 requiring specified amounts in state support for K-12 Education. The budgetary situation for higher education has changed with the implementation of the College Opportunity Fund in fiscal year 2006. As a result of legislation adopted in the 2004 session (S.B. 04-189), the State no longer provides direct State General Fund appropriation to the governing boards. Instead, the State provides stipends to qualified, resident undergraduate students, and institutions receive fee for service contracts from the Colorado Commission on Higher Education for the provision of other educational services. Finally, S.B. 04-189 also allows institutions of higher education to become TABOR enterprises through this new funding mechanism. Enterprise status eliminates institutional cash funds, such as tuition, from counting against the state's TABOR limitation.

In fiscal year 2007, the System was designated a Single Enterprise providing it greater flexibility and expanded financial capabilities in a host of areas. This designation allows the System to raise revenues and finance projects outside of the revenue limits set for most governmental entities. With this TABOR status, the cash funds collected by the System's institutions no longer count toward the State's overall revenue limit. In addition, as enterprises, the institutions can consider issuing revenue bonds backed by student fees for academic buildings.

The Colorado State University System is authorized to receive \$64.2 million in fee for service contract revenue and \$39.5 million in student stipends in fiscal year 2013. The \$103.7 million of anticipated fiscal year 2013 fee for service contract revenue and the student stipends represents a \$2.7 million decrease in state support.

Overall enrollment at the System increased 4.6 percent as measured by total enrollment from 2011 to 2012. CSU was flat to prior year, CSU-Pueblo increased 1.5 percent and CSU Global experienced a 5.2 percent increase.

**Requests for Information**

The financial report is designed to provide a general overview of the Colorado State University System's finances for all those with an interest in the System's finances and to demonstrate the System's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the attention of the Chief Financial Officer, Colorado State University System, 410 Seventeenth Street, Suite 1415, Denver, CO 80202.

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# Colorado State University System

## Statements of Net Assets

June 30, 2012 and 2011

(Amounts expressed in thousands)

Assets	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 367,946	323,875
Student accounts receivable, net	23,511	20,042
Grant and other accounts receivable, net	103,490	74,923
Student loans receivable, net	3,027	2,888
Inventories	9,595	9,249
Prepaid expenses	4,867	4,057
Total current assets	<u>512,436</u>	<u>435,034</u>
Noncurrent assets:		
Restricted cash and cash equivalents	207,355	133,114
Restricted investments	22,483	20,077
Student loans receivable, net	20,384	20,457
Other noncurrent assets	4,569	3,953
Nondepreciable capital assets:		
Land and land improvements	24,448	19,835
Construction in progress	115,658	38,432
Collections	2,617	2,195
Total nondepreciable capital assets	<u>142,723</u>	<u>60,462</u>
Depreciable capital assets, net:		
Land improvements	34,430	32,449
Buildings and improvements	771,395	780,062
Leasehold improvements	889	1,108
Equipment	103,759	62,861
Library materials	12,713	15,790
Total depreciable capital assets (net of accumulated depreciation)	<u>923,186</u>	<u>892,270</u>
Total noncurrent assets	<u>1,320,700</u>	<u>1,130,333</u>
Total assets	<u>\$ 1,833,136</u>	<u>1,565,367</u>

# Colorado State University System

## Statements of Net Assets

June 30, 2012 and 2011

(Amounts expressed in thousands)

	<u>2012</u>	<u>2011</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 44,941	31,268
Accrued liabilities	125,215	88,260
Deferred revenue	28,283	26,146
Deposits held for others, current	5,950	5,462
Bonds payable and certificates of participation, current	10,633	7,113
Capital leases payable, current	1,798	1,663
Other noncurrent liabilities, current	2,492	2,288
Compensated absences liabilities, current	2,468	2,319
	<u>221,780</u>	<u>164,519</u>
Total current liabilities		
Noncurrent liabilities:		
Bonds payable and certificates of participation	632,926	501,584
Capital leases payable	4,913	5,074
Deposits held for others	23,480	20,927
Other noncurrent liabilities	23,862	19,450
Compensated absences liabilities	39,936	39,456
	<u>725,117</u>	<u>586,491</u>
Total noncurrent liabilities		
Total liabilities	<u>\$ 946,897</u>	<u>751,010</u>
<b>Net Assets</b>		
Net assets:		
Invested in capital assets, net of related debt	\$ 575,988	528,366
Restricted for nonexpendable purposes	22,596	20,563
Restricted for expendable purposes - other	85,613	90,382
Unrestricted	202,042	175,046
	<u>886,239</u>	<u>814,357</u>
Total net assets		

See accompanying notes to basic financial statements.



**Colorado State University System**  
**Colorado State University Foundation**  
**Statements of Financial Position – Discretely Presented Component Unit**  
**June 30, 2012 and 2011**  
(Amounts expressed in thousands)

Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011
Cash and cash equivalents	\$ 172	192	96	460	221	263	7	491
Investments	28,112	126,612	147,449	302,173	31,767	128,817	136,317	296,901
Receivables:								
Pledges, net of allowance	350	19,341	2,299	21,990	358	22,511	6,068	28,937
Life income trusts	-	-	-	-	-	-	74	74
Property and equipment, net of accumulated depreciation	13	-	-	13	17	-	-	17
Cash surrender value of life insurance policies	-	2	561	563	-	2	511	513
Prepays and other assets	53	56	44	153	48	62	52	162
Total assets	<u>\$ 28,700</u>	<u>146,203</u>	<u>150,449</u>	<u>325,352</u>	<u>32,411</u>	<u>151,655</u>	<u>143,029</u>	<u>327,095</u>
<b>Liabilities and Net Assets</b>								
Accounts payable (primarily to CSU)	\$ 226	830	-	1,056	241	598	-	839
Other accrued liabilities	117	-	-	117	112	-	-	112
Life income agreements	530	142	180	852	544	149	192	885
Deposit held in custody for CSU	-	2,516	11,064	13,580	-	2,741	9,504	12,245
Total liabilities	<u>873</u>	<u>3,488</u>	<u>11,244</u>	<u>15,605</u>	<u>897</u>	<u>3,488</u>	<u>9,696</u>	<u>14,081</u>
Net Assets:								
Unrestricted:								
Undesignated	4,928	-	-	4,928	4,629	-	-	4,629
Board-designated	26,459	-	-	26,459	28,901	-	-	28,901
Endowment investment losses in excess of gift value	(3,560)	-	-	(3,560)	(2,016)	-	-	(2,016)
Total unrestricted	<u>27,827</u>	<u>-</u>	<u>-</u>	<u>27,827</u>	<u>31,514</u>	<u>-</u>	<u>-</u>	<u>31,514</u>
Temporarily restricted	-	142,715	-	142,715	-	148,167	-	148,167
Permanently restricted	-	-	139,205	139,205	-	-	133,333	133,333
Total net assets	<u>27,827</u>	<u>142,715</u>	<u>139,205</u>	<u>309,747</u>	<u>31,514</u>	<u>148,167</u>	<u>133,333</u>	<u>313,014</u>
Total liabilities and net assets	<u>\$ 28,700</u>	<u>146,203</u>	<u>150,449</u>	<u>325,352</u>	<u>32,411</u>	<u>151,655</u>	<u>143,029</u>	<u>327,095</u>

See accompanying notes to basic financial statements.

**Colorado State University System**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2012 and 2011**  
(Amounts expressed in thousands)

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Student tuition and fees, (including \$61,032 and \$56,474 of revenues pledged for bonds in 2012 and 2011, respectively, and net of scholarship allowances of \$98,381 and \$89,276 for 2012 and 2011, respectively)	\$ 339,662	296,884
State fee for service revenue	67,932	87,610
Grants and contracts (including \$46,123 and \$42,159 of revenues pledged for bonds in 2012 and 2011, respectively)	332,520	293,484
Sales and services of educational activities	25,779	22,709
Auxiliary enterprises, (including \$103,287 and \$101,041 of revenues pledged for bonds in 2012 and 2011, respectively, and net of scholarship allowances of \$4,579 and \$5,039 for 2012 and 2011, respectively)	139,380	134,883
Other operating revenue	6,128	6,106
	<u>911,401</u>	<u>841,676</u>
Total operating revenues		
Operating expenses:		
Instruction	232,346	222,891
Research	186,611	182,451
Public service	136,907	97,868
Academic support	62,629	58,373
Student services	36,241	33,109
Institutional support	47,890	41,915
Operation and maintenance of plant	59,576	52,837
Scholarships and fellowships	16,114	16,608
Auxiliary enterprises	125,718	119,083
Depreciation	66,414	54,290
	<u>970,446</u>	<u>879,425</u>
Total operating expenses		
Operating loss	<u>(59,045)</u>	<u>(37,749)</u>

**Colorado State University System**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2012 and 2011**  
(Amounts expressed in thousands)

	<u>2012</u>	<u>2011</u>
Nonoperating revenues (expenses):		
State appropriations	2,450	5,700
State Fiscal Stabilization Fund	-	6,030
Gifts	31,919	24,942
Investment income (including \$1,460 and \$1,986 of revenues pledged for bonds in 2012 and 2011, respectively)	6,758	6,928
Interest expense on capital debt	(18,697)	(17,817)
Federal nonoperating grants and contracts	37,346	36,493
Other nonoperating revenues	4,524	4,184
	<u>64,300</u>	<u>66,460</u>
Net nonoperating revenues		
Income before other revenues	<u>5,255</u>	<u>28,711</u>
Other revenues (expenses):		
State capital contributions	1,644	14,049
Capital grants	10,194	7,942
Capital gifts	51,532	4,931
Payments (to)/from governing boards or other institutions	(220)	213
Additions to permanent endowments	2,324	2,301
	<u>65,474</u>	<u>29,436</u>
Total other revenues		
Extraordinary items:		
Gain on insurance recovery	1,153	-
	<u>1,153</u>	<u>-</u>
Total extraordinary items		
Increase in net assets	71,882	58,147
Net assets, beginning of year	<u>814,357</u>	<u>756,210</u>
Net assets, end of year	<u>\$ 886,239</u>	<u>814,357</u>

See accompanying notes to basic financial statements.

**Colorado State University System**  
Colorado State University Foundation  
Statements of Activities - Discretely Presented Component Unit  
Years Ended June 30, 2012 and 2011  
(Amounts expressed in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2011
<b>Support and revenue:</b>								
Contributions	\$ 218	19,083	6,594	25,895	180	32,648	12,223	45,051
Total contributions	218	19,083	6,594	25,895	180	32,648	12,223	45,051
Net investment income	3,767	543	65	4,375	23,403	28,623	110	52,136
Actuarial change in value of life income agreements	(27)	(18)	(17)	(62)	(27)	(14)	5	(36)
Other revenue	1	50	50	101	1	57	82	120
<b>Net assets released from restrictions:</b>								
Satisfaction of program restrictions	26,995	(26,995)	-	-	20,257	(20,246)	(11)	-
Total support and revenue	30,954	(7,337)	6,692	30,309	43,814	41,048	12,409	97,271
<b>Expenses:</b>								
Program services:								
CSU College of:								
Agricultural Sciences	2,728	-	-	2,728	2,541	-	-	2,541
Applied Human Sciences	1,419	-	-	1,419	1,019	-	-	1,019
Business	1,966	-	-	1,966	1,865	-	-	1,865
Engineering	5,290	-	-	5,290	1,947	-	-	1,947
Liberal Arts	1,010	-	-	1,010	835	-	-	835
Warner College of Natural Resources	1,370	-	-	1,370	1,322	-	-	1,322
Natural Sciences	1,072	-	-	1,072	971	-	-	971
Veterinary Medicine and Biomedical Sciences	4,939	-	-	4,939	4,488	-	-	4,488
Athletics	2,662	-	-	2,662	1,790	-	-	1,790
Central Development	4,361	-	-	4,361	4,257	-	-	4,257
Other CSU programs	4,215	-	-	4,215	2,650	-	-	2,650
Total program services	31,032	-	-	31,032	23,685	-	-	23,685
Support services:								
Management and general	2,203	-	-	2,203	2,056	-	-	2,056
Total expenses	33,235	-	-	33,235	25,741	-	-	25,741
(Decrease) increase in allowance for uncollectible pledges	-	1	340	341	-	196	226	722
Change in net assets	(2,281)	(7,338)	6,352	(3,267)	18,073	40,552	12,183	70,808
Interfund transfers	(1,406)	1,886	(480)	-	(776)	689	87	-
<b>Net assets, beginning of year</b>	<u>31,514</u>	<u>148,167</u>	<u>133,333</u>	<u>313,014</u>	<u>14,217</u>	<u>106,926</u>	<u>121,063</u>	<u>242,206</u>
<b>Net assets, end of year</b>	<u>\$ 27,827</u>	<u>142,715</u>	<u>139,205</u>	<u>309,747</u>	<u>31,514</u>	<u>148,167</u>	<u>133,333</u>	<u>313,014</u>

See accompanying notes to basic financial statements.

# Colorado State University System

## Statements of Cash Flows

Years Ended June 30, 2012 and 2011

(Amounts expressed in thousands)

	2012	2011
Cash flows from operating activities:		
Cash received:		
Tuition and fees	\$ 340,976	295,605
Student loans collected	3,421	3,742
Sales of products	21,921	21,352
Sales of services	141,441	135,935
State fee for service revenue	67,932	87,610
Grants and contracts	310,790	284,633
Other operating receipts	6,688	6,933
Cash payments:		
Scholarships disbursed	(12,041)	(12,146)
Student loans disbursed	(3,232)	(2,599)
Payments to employees	(560,851)	(573,320)
Payments to suppliers	(287,793)	(229,866)
	29,252	17,879
Net cash provided by operating activities		
Cash flows from noncapital financing activities:		
State appropriations - noncapital	2,450	5,700
State Fiscal Stabilization Fund	-	6,030
Gifts and grants for other than capital purposes	26,773	23,445
Agency (direct lending inflows)	184,939	172,498
Agency (direct lending outflows)	(184,939)	(172,498)
Other agency inflows	65,858	58,814
Other agency (outflows)	(63,500)	(54,476)
Payments to governing boards or other institutions	3,625	(67)
Other nonoperating revenues	42,984	40,727
	78,190	80,173
Net cash provided by noncapital financing activities		
Cash flows from capital and related financing activities:		
Proceeds from capital debt	142,316	102,037
State appropriations - capital	1,650	14,284
Capital grants, contracts, and gifts	13,311	8,921
Acquisition and construction of capital assets	(116,955)	(92,725)
Principal paid on capital debt	(9,280)	(8,675)
Interest on capital debt	(25,514)	(21,352)
	5,528	2,490
Net cash provided by capital and related financing activities		

# Colorado State University System

## Statements of Cash Flows

Years Ended June 30, 2012 and 2011

(Amounts expressed in thousands)

	2012	2011
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	18,859	14,512
Purchase of investments	(19,757)	(15,212)
Investment earnings	6,240	6,494
Net cash provided by investing activities	5,342	5,794
Net increase in cash and cash equivalents	118,312	106,336
Cash and cash equivalents	323,875	285,634
Restricted cash and cash equivalents	133,114	65,019
Cash and cash equivalents, beginning of the year	456,989	350,653
Cash and cash equivalents	367,946	323,875
Restricted cash and cash equivalents	207,355	133,114
Cash and cash equivalents, end of the year	\$ 575,301	456,989
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (59,045)	(37,749)
Adjustments:		
Depreciation expense	66,414	54,290
Noncash operating transactions	5,608	2,376
Decrease (increase) in assets:		
Receivables, net	(24,882)	(9,234)
Inventories and prepaids	(5,943)	(1,322)
Increase (decrease) in liabilities:		
Accounts payable	4,032	(10,768)
Accrued liabilities	35,447	14,581
Deferred revenue	2,084	1,510
Deposits held for others	496	215
Compensated absences liabilities	629	(405)
Other liabilities	4,412	4,385
Net cash provided by operating activities	\$ 29,252	17,879

# Colorado State University System

## Statements of Cash Flows

Years Ended June 30, 2012 and 2011

(Amounts expressed in thousands)

	<u>2012</u>	<u>2011</u>
Noncash activities:		
Noncash gifts	\$ 53,289	5,245
Noncash capital leases	2,223	2,180
Noncash additions to investments held by Foundation	1,335	1,552
Unrealized gains (losses) on investments	992	(368)
Capitalized interest	6,815	6,306
Capital debt refinanced	7,561	-
Amortization of bond premium	888	604
Amortization of bond issuance costs	198	182
Retainage payable	3,826	(3,614)
Certificate of Participation	-	502

See accompanying notes to basic financial statements.

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# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

### (1) Governance and Reporting Entity

#### (a) Governance

The Colorado State University System (the System) is an institution of higher education of the State of Colorado. For financial reporting purposes, the System is included as part of the State of Colorado's primary government. The Board of Governors (the Board) is the governing board of the System. The Board consists of nine members appointed by the Governor of the State of Colorado and four nonvoting representatives from the institutions. In addition to these financial statements, the System's financial activity is also included in the basic financial statements of the State of Colorado.

#### (b) Reporting Entity

The accompanying financial statements present the operations of the System. The System conducts its operations through the following three institutions:

Colorado State University – (CSU)  
Colorado State University – Pueblo (CSU-Pueblo)  
Colorado State University – Global Campus (CSU-Global)

Since CSU is the State's land grant institution, it includes the Agriculture Experiment Station, CSU Extension, and the Colorado State Forest Service. In addition, the accompanying financial statements contain the financial activity of the System offices.

As a higher education institution of the State of Colorado, the income of the System is generally exempt from income taxes under Section 115 of the Internal Revenue Code (IRC). However, income unrelated to the exempt purpose of the System would be subject to tax under IRC Section 511(a)(2)(B). The System had no material unrelated business income for the years ended June 30, 2012 and 2011.

#### (c) Discretely Presented Component Unit

The System follows Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus*. This statement provides guidance to determine whether certain organizations for which the System is not financially accountable should be reported as component units based on the nature and significance of their relationship with the System. The Colorado State University Foundation (the Foundation or CSUF) has been determined to be a component unit of the System and has therefore been included as a discretely presented component unit in the System financial reporting entity and presented in the System's 2012 and 2011 financial statements. The Colorado State University Research Foundation and the Colorado State University – Pueblo Foundation do not meet the criteria to be reported as component units.

The Foundation is a legally separate, tax-exempt entity that was established to receive, manage and invest philanthropic gifts on behalf of CSU. The majority of resources or income thereon that the Foundation holds and invests is restricted for use by, or for the benefit of CSU by the donors. The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement

## Colorado State University System

### Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation requirements are different from GASB revenue recognition criteria and presentation requirements. No modifications have been made to the Foundation's financial information in the System's financial reporting entity for these differences, as permitted by GASB Statement No. 39. In fiscal year 2009, CSUF implemented Financial Accounting Standards Board Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. CSUF fully discloses the nature of its endowment funds, both donor restricted endowment funds and board-designated endowment funds.

The Foundation was established in 1970 as an independent 501(c)(3) organization. The primary purpose of the Foundation is to receive, manage, and invest philanthropic gifts for the benefit of CSU. The officers of the Foundation are appointed by the Board of Directors. The Board of Directors consists of five voting members. Four voting members are community members elected by the Board of Directors and the fifth voting member is the President of the Foundation. The three ex-officio, nonvoting members of the Board of Directors serve by virtue of title: President of Colorado State University, the CSU Vice President for University Advancement, and the CSU Vice President for University Operations. No person who is an employee of CSU is eligible to serve as an officer of the Foundation or as a voting Board Member.

The major source for the Foundation's revenue is gifts. For the years ended June 30, 2012 and 2011, respectively, gifts were \$25.9 million and \$45.1 million. Included in Total Support and Revenue is net investment income. The Foundation had net investment income for the years ended June 30, 2012 and 2011 of \$4.4 million and \$52.1 million, respectively. The Total Support and Revenue at June 30, 2012 and 2011 was \$30.3 million and \$97.3 million, respectively.

The support provided by the Foundation to CSU is intended to assist in the promotion, development, and enhancement of the facilities, and educational programs and opportunities of the faculty, students, and alumni of CSU. Additionally, the Foundation provides receipts to contributors and invests philanthropic gifts. Approximately \$31.0 million and \$23.7 million was transferred to CSU for the years ended June 30, 2012 and 2011, respectively, in pursuit of the above stated objectives.

Endowments and the related expendable accounts of CSU are held by the Colorado State University Foundation for investment safekeeping. These funds amounted to \$13.6 million and \$12.2 million as of June 30, 2012 and 2011, respectively, and are reported as deposits held in custody for CSU in the financial statements of the Colorado State University Foundation.

Audited financial statements for the Foundation are available at 410 University Services Center, Fort Collins, CO 80523.

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

**(2) Basis of Presentation**

The System has implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, with regard to the application of FASB pronouncements applicable to its proprietary operations. In accordance with the provisions of GASB Statement No. 20, the System has applied those FASB statements and interpretations issued on or before November 30, 1989. The System has elected not to apply FASB statements and interpretations issued after November 30, 1989.

Any effort to reconcile this report with presentations made for other purposes, such as data submitted with the legislative budget request of the System, must take into consideration the differences in the basis of accounting and other requirements for the presentation of such information.

**(3) Measurement Focus, Basis of Accounting, and Summary of Significant Accounting Policies**

For financial reporting purposes, the System is considered a special-purpose government engaged only in business-type activities. Accordingly, the basic financial statements of the System have been presented using the economic resources measurement focus and the accrual basis of accounting. Presentation is also in accordance with the State of Colorado Higher Education Accounting Standard No. 17. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. All significant intra-agency transactions have been eliminated.

**(a) Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents are defined as cash-on-hand, demand deposits, certificates of deposit with financial institutions, pooled cash with the State Treasurer, and all highly liquid investments with an original maturity when purchased of three months or less.

**(b) Investments**

Investments are accounted for at fair value, which is determined based on quoted market prices. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net assets.

**(c) Inventories**

Inventories, consisting of livestock; facilities and housing maintenance supplies; medical, pharmaceutical, and laboratory supplies; food supplies; books; and soft-goods are stated at the lower of cost or market. Cost is determined either on the first-in/first-out, average-cost, specific-identification, or on the retail method. Livestock inventories have been recorded at the lower of cost or market using unit livestock costing methods and estimated animal weights.

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

**(d) *Restricted Cash and Cash Equivalents and Restricted Investments***

Assets are reported as restricted when restrictions on asset use change the nature or normal understanding of the availability of the assets. For the System, examples of restricted cash and cash equivalents and restricted investments include cash and cash equivalents required as bond reserves, unexpended bond proceeds, and investments held by endowment funds.

**(e) *Capital Assets***

Land, land improvements, buildings and improvements, leasehold improvements, library materials, collections, and equipment are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Capitalization limits vary at the three institutions ranging from \$5 thousand to \$50 thousand. At CSU, library materials are valued at average acquisition cost. At CSU-Pueblo, library materials are valued at actual cost.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets or intangible assets, generally 10 to 70 years for buildings, 10 to 21 years for land improvements, 10 to 15 years for library books, 3 to 12 years for equipment and software, and 3 to 40 years for leasehold improvements. Depreciation expense was not allocated among functional categories.

Renovations to buildings and other improvements that significantly increase the value and extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to expense. Major outlays for capital assets and improvements are capitalized as construction in progress throughout the building project.

During capital construction, interest cost is capitalized from the date of the tax-exempt borrowing to the date the qualifying asset is ready for use. Once the capital asset is ready for use, the net cost of interest on the borrowing is capitalized and added to the acquisition cost of the asset.

The System has capitalized collections such as works of art and historical artifacts. The nature of certain collections is such that the value and usefulness of the collection does not change over time. These collections have not been depreciated in the System's financial statements.

Assets under capital leases are recorded at the present value of the future minimum lease payments and are amortized using the straight-line method over the estimated useful life of the asset being leased.

The System evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Capital assets are generally considered impaired if a decline in service utility occurs, the impairment is material, and the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the System are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the System are measured using the method that best reflects the diminished service utility of the capital asset. If evidence is available to demonstrate that impairment will be temporary, the capital asset is not written down. There were no material impairments of capital assets at

## Colorado State University System

### Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

June 30, 2011. In 2012, the Equine Research lab was destroyed by fire. CSU wrote off the remaining value of the building and equipment.

**(f) *Compensated Absence Liabilities***

The amount of compensated absence liabilities that are recorded as a current liability on the statements of net assets are the higher of the historical annual amount of separation payouts or the known amount of separation payouts. The remaining balance of the compensated absence liabilities is recorded as a noncurrent liability on the statements of net assets.

**(g) *Net Assets***

Net assets of the System are classified as follows:

***Invested in capital assets, net of related debt*** – This represents the total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets.

***Restricted net assets – nonexpendable*** – Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing future income, which may either be expended or added to principal.

***Restricted net assets – expendable*** – Restricted expendable net assets include resources in which the System is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties or debt agreements.

***Unrestricted net assets*** – Unrestricted net assets represent resources derived from student tuition and fees, state fee for service reserves, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the System and may be used to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff. Unrestricted net assets may be designated by actions of the Board.

***Discretely presented component unit*** – Net assets of the Foundation and the changes therein are classified and reported as follows:

***Unrestricted net assets*** – Net assets that are not subject to donor-imposed restrictions.

***Temporarily restricted net assets*** – Net assets are subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

***Permanently restricted net assets*** – Net assets are subject to donor-imposed restrictions that they be maintained permanently by the Foundation.

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

**(h) *Classification of Revenues***

The System has classified revenues as either operating or nonoperating according to the following criteria:

Operating revenues consist of services and sales related to teaching, research, and public service, along with auxiliary activities of student, faculty, and staff support. These revenues include: 1) tuition and fees from students (after reduction for scholarship allowances provided with institutional funds); 2) grants and contracts from federal, state, and local governments, and private sources including businesses, individuals, and foundations; 3) state fee for service revenues; 4) sales and services of the Veterinary Teaching Hospital and Diagnostic Laboratory; and 5) fees for goods and services of auxiliary operations such as student housing and dining, student center retail stores, health services, and athletics. Revenues from exchange transactions are recognized when they are earned and measurable.

Operating expenses represent the full cost of providing the services and goods associated with operating revenues. These expenses are accrued when incurred and measurable and reported using functional classifications.

Nonoperating revenues consist primarily of gifts from grantors and donors, and investment income that are relied upon and budgeted for support of operating expenses. Also included in nonoperating revenues are State Fiscal Stabilization Funds and Federal Pell Grants. State Fiscal Stabilization funds are a federal grant from the U.S. Department of Education which was granted to the State of Colorado and passed through to Higher Education to offset reductions to the College Opportunity Fund stipend and the fee for service contract. Nonoperating expenses include interest expense on capital debt.

Other revenues include revenues from state capital construction and controlled maintenance appropriations, capital gifts, and grants primarily designated for capital purposes. Other expenses include payments to other governing boards or other institutions.

**(i) *Summer Session Revenue and Related Expenses***

The System prorates the summer session revenues and expenses based on the number of days between the first day of the summer session and the last day of the summer session which falls before or after June 30.

**(j) *Application of Restricted and Unrestricted Resources***

This application is made on a case-by-case basis by management depending on overall program requirements and resources. Generally, management applies restricted resources then unrestricted resources when both restricted and unrestricted resources are available to pay an expense.

**(k) *Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### (4) Cash and Cash Equivalents

The System deposits cash and cash equivalents with the State Treasurer as required by Colorado Revised Statutes (CRS). The State Treasurer pools these deposits and invests them in securities approved by CRS 24-75-601.1. The State Treasury acts as a bank for all state agencies and institutions of higher education, with the exception of the University of Colorado. Monies deposited in the Treasury are invested until the cash is needed. As of June 30, 2012, the System had cash on deposit with the State Treasurer of \$566.6 million which represented approximately 8.7 percent of the total \$6.5 billion fair value of deposits in the State Treasurer's Pool (Pool). As of June 30, 2011, the System had cash on deposit with the State Treasurer of \$447.8 million which represented approximately 7.3 percent of the total \$6.1 billion fair value of deposits in the Pool.

For financial reporting purposes all of the Treasurer's investments are reported at fair value, which is determined based on quoted market prices at fiscal year end. On the basis of the System's participation in the Pool, the System reports as an increase or decrease in cash and cash equivalents its share of the Treasurer's unrealized gains and losses on the Pool's underlying investments. The State Treasurer does not invest any of the Pool's resources in any external investment pool. The unrealized gains or losses included in income reflect only the change in fair value for the fiscal year.

The difference between the System's cash carrying value, deposits with the State Treasurer and balances at other banks is due to outstanding checks and deposits in transit. Interest earned on deposits with the State for the fiscal years ended June 30, 2012 and 2011 was approximately \$6.2 million and \$7.8 million, respectively. These amounts reflect increases in cash and cash equivalents and increases or decreases in investment income as a result of recording unrealized gains or losses on deposits with the State Treasurer. The System reflected an unrealized gain of \$7.7 million and \$6.7 million on cash and cash equivalents on deposit with the State Treasurer for fiscal years ended June 30, 2012 and 2011, respectively. The unrealized gain on investment income for the fiscal year ended June 30, 2012 was \$992 thousand and the unrealized loss on investment income for the fiscal year ended June 30, 2011 was \$368 thousand. Detailed information on the State Treasurer's pooled cash and cash equivalents and investments is available from the State Treasurer's office.

Investments in the Pool are exposed to custodial credit risk if the securities are uninsured, are not registered in the State's name, and are held by either the counterparty to the investment purchase or the counterparty's trust department or agent but not in the State's name. As of June 30, 2012, none of the investments in the State Treasurer's Pool are subject to custodial credit risk.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the System's deposits may not be returned to it. To manage custodial risk, deposits with financial institutions are made in accordance with the Colorado Public Deposit Protection Act (PDPA) of 1975. PDPA requires all eligible depositories holding public deposits to pledge designated eligible collateral having a market value equal to at least 102 percent of the deposits exceeding those amounts insured by federal depository insurance. Deposits collateralized under PDPA are considered to be

## Colorado State University System

### Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

collateralized with securities held by the pledging institutions in the System's name. Deposits held in money market funds are not PDPA eligible deposits.

At June 30, 2012 and 2011, the System's book value of cash not on deposit with the State Treasurer was \$8.7 million and \$9.2 million, respectively. Cash included petty cash/change funds and bank account balances of \$185 thousand and \$8.5 million as of June 30, 2012 and \$138 thousand and \$9.0 million as of June 30, 2011, respectively. Bank account balances per the bank at June 30, 2012 and 2011 were \$16.1 million and \$13.8 million, respectively. Of the June 30, 2012 deposits \$14.8 million were covered by depository insurance and were not exposed to custodial credit risk, the remaining \$1.3 million were collateralized with securities held by the pledging institution in the System's name. Of the June 30, 2011 deposits \$13.1 million were covered by depository insurance and were not exposed to custodial credit risk and the remaining \$773 thousand were collateralized with securities held by the pledging institution in the System's name.

Credit quality risk is the risk that the issuer or other counterparty to a debt security will not fulfill its obligations. This risk is assessed by national rating agencies which assign a credit quality rating for many investments. Credit quality ratings for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not reported; however, credit quality ratings are reported for obligations of U.S. government agencies that are not explicitly guaranteed by the U.S. government. Based on these parameters, as of June 30, 2012, approximately 89.0 percent of investments of the Pool are subject to credit quality risk reporting. Except for \$12.1 million of corporate bonds rated lower medium these investments are rated from upper medium to the highest quality, which indicates that the issuer has a strong capability to pay principal and interest when due. As of June 30, 2011, approximately 86.7 percent of investments of the Pool are subject to credit quality risk reporting. Except for \$18.4 million of corporate bonds rated lower medium and \$15.0 million of corporate bonds rated very speculative, these investments are rated from upper medium to the highest quality which indicates that the issuer has a strong capability to pay principal and interest when due.

Interest rate risk is the risk that changes in the market rate of interest will adversely affect the value of an investment. In addition to statutory limitations on types of investments, the State Treasurer's investment policy mitigates interest rate risk through the use of maturity limits set to meet the needs of the individual fund if the Treasurer is investing for a specific fund rather than the Pool. The Treasurer actively manages the time to maturity in reacting to changes in the yield curve, economic forecasts, and liquidity needs of the participating funds. The Treasurer further limits investment risk by setting a minimum/maximum range for the percentage of investments subject to interest rate risk and by laddering maturities and credit ratings. As of June 30, 2012, the weighted average maturity of investments in the Pool was 0.090 years for Commercial Paper (2.1 percent of the Pool), 0.803 years for U.S. Government Securities (75.2 percent of the Pool), 2.379 years for Asset Backed Securities (6.6 percent of the Pool), and 3.252 years for Corporate Bonds (16.1 percent of the Pool). As of June 30, 2011, the weighted average maturity of investments in the Pool was 0.015 years for Commercial Paper (1.3 percent of the Pool), 1.054 years for U.S. Government Securities (81.7 percent of the Pool), 1.06 years for Asset Backed Securities (6.9 percent of the Pool), and 3.133 years for Corporate Bonds (10.1 percent of the Pool).



## Colorado State University System

### Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

The Pool was not subject to foreign currency risk or concentration of credit risk in fiscal years ended June 30, 2012 or 2011.

Additional information on investments of the Pool may be obtained in the State's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012.

**(5) Restricted Investments**

As of June 30, 2012 and 2011, the System's restricted investments had a fair value of \$22.5 million and \$20.1 million, respectively. Investment earnings for the fiscal years ended June 30, 2012 and 2011 were \$10 thousand and \$12 thousand, respectively.

No investment types were purchased and sold during the years that were not owned as of June 30, 2012 and 2011. The System only invests in U.S. Treasury securities, which are federally guaranteed investments, as required by state law. The System's restricted investments include investments held by CSUF that are invested in the Foundation's long-term endowment pool, which are not evidenced by securities that exist in physical or book form.

The following details each major category of the System's investments at fair value as of June 30, 2012 and 2011:

	<b>June 30</b>	
	<b>2012</b>	<b>2011</b>
U.S. Treasury obligations	\$ 8,903,000	7,832,000
Investments held by CSUF in long-term endowment pool:		
Corporate equities	506,000	488,000
Mutual funds	4,529,000	3,867,000
Private equities	3,079,000	2,729,000
International equities	1,883,000	1,770,000
Hedge funds	1,013,000	950,000
Alternative investments	2,570,000	2,441,000
	13,580,000	12,245,000
Total investments	\$ 22,483,000	20,077,000

## Colorado State University System

### Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

**(a) Credit Quality Risk**

At June 30, 2012 and 2011, the System (investments held by CSUF) had debt securities in the following credit risk categories:

	June 30	
	2012	2011
Bond mutual funds (Standard & Poor's/Moody's)		
AAA / Aaa	\$ 442,000	102,000
AA / Aa	71,000	374,000
A / A	51,000	119,000
BBB / Baa	38,000	162,000
BB / Ba	19,000	60,000
B / B	6,000	26,000
Below B	13,000	8,000
	\$ 640,000	851,000

The Foundation's investment policy is utilized to manage credit risk relating to the CSU System assets invested in the Foundation's long-term endowment pool. This policy specifies that the dollar weighted average of the fixed income portfolio should be investment grade quality or above.

**(b) Interest Rate Risk**

At June 30, 2012, the following System investments were subject to interest rate risk:

Type of Investment	Fair Value	Weighted Average Maturity (in years)	Duration (in years)
U.S. Treasury obligations	\$ 8,903,000	0.31	
Investments held by CSUF in long-term endowment pool:			
Bond mutual funds:			
PIMCO - Low Duration Fund	640,000	3.70	2.80
Total investments subject to interest rate risk	\$ 9,543,000		

## Colorado State University System

Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

At June 30, 2011, the following System investments were subject to interest rate risk:

<u>Type of Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (in years)</u>	<u>Duration (in years)</u>
U.S. Treasury obligations	\$ 7,832,000	0.08	
Investments held by CSUF in long-term endowment pool:			
Bond mutual funds:			
PIMCO - Low Duration Fund	<u>851,000</u>	2.73	1.87
Total investments subject to interest rate risk	<u>\$ 8,683,000</u>		

The Colorado State University Foundation's investment policy is utilized to manage interest rate risk relating to the System amounts invested in the Foundation's long-term endowment pool. This policy specifies that the portfolio's weighted average maturity is to be ten years or less at all times and that the fixed income portion of the portfolio is to be targeted at eight percent of the total portfolio with an acceptable range being between four percent and twelve percent.

The System's U.S. Treasury obligations are invested in accordance with Colorado Revised Statute 23-31-504. This statute requires these investments relating to the CSU land grant fund to be invested in specific types of investments, which includes U.S. Treasury obligations. The System does not have a specific policy relating to the management of interest rate risk.

*Discretely presented component unit* – As of June 30, 2012, Foundation investments consisted of various securities carried at fair market value as determined by quoted market prices on national exchanges. Alternative investments are valued at the net asset value (NAV) provided by the investment manager. This NAV is computed based on dealer quotations on the fair market value of the underlying securities, the majority of which are traded on national exchanges. Alternative investments comprise of two investment types: absolute return and long/short investments. The goal of absolute return investments is to earn a stable return uncorrelated with equity markets. The goal of long/short investments is to outperform the S&P 500 Index over the long term with less volatility.

## Colorado State University System

### Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

The following details each major category of the Foundation's investments at fair market value as of June 30, 2012 and 2011:

	June 30	
	2012	2011
Cash and cash equivalents subject to investment management direction	\$ 14,877,000	4,018,000
Equities:		
Large-cap	71,611,000	69,048,000
International	41,861,000	42,873,000
Micro-cap	11,251,000	11,829,000
Fixed income	14,229,000	20,622,000
Alternative investments	148,128,000	148,304,000
Other investments	216,000	207,000
	<u>\$ 302,173,000</u>	<u>296,901,000</u>

Net investment income of the Foundation consisted of the following for the fiscal years ended June 30, 2012 and 2011:

	2012	2011
Interest, dividends, and other income	\$ 3,363,000	4,265,000
Net unrealized and realized gain on investments	2,468,000	54,022,000
Less investment management fees	(1,521,000)	(4,050,000)
	<u>4,310,000</u>	<u>54,237,000</u>
Less net investment loss (income) on deposits held in custody for CSU	65,000	(2,101,000)
	<u>\$ 4,375,000</u>	<u>52,136,000</u>

## Colorado State University System

### Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

**(6) Accounts Receivable**

Accounts receivable are shown net of allowances for doubtful accounts in the accompanying statements of net assets.

	June 30	
	2012	2011
Student accounts receivable:	\$ 28,775,000	24,913,000
Less allowance for doubtful accounts	(5,264,000)	(4,871,000)
Student accounts receivable, net	\$ 23,511,000	20,042,000
Student loans receivable:	\$ 26,362,000	26,108,000
Less allowance for doubtful accounts	(2,951,000)	(2,763,000)
Student loans receivable, net	23,411,000	23,345,000
Less current portion	(3,027,000)	(2,888,000)
Noncurrent student loans receivable, net	\$ 20,384,000	20,457,000
Grant and other accounts receivable:		
Sponsored programs	\$ 94,345,000	65,464,000
Commercial receivables	5,472,000	5,160,000
Conferences and summer programs	795,000	498,000
Insurance trust fund	989,000	526,000
Receivables from Foundation	2,485,000	1,820,000
Athletics	569,000	621,000
Capital construction - due from state	-	6,000
Self-funded operations	906,000	346,000
Other	2,126,000	1,568,000
Total grant and other accounts receivable	107,687,000	76,009,000
Less allowance for doubtful accounts	(4,197,000)	(1,086,000)
Grant and other accounts receivable, net	\$ 103,490,000	74,923,000

## Colorado State University System

### Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

*Discretely presented component unit* – As of June 30, 2012 and 2011, the Foundation’s pledges receivables consisted of the following:

	June 30	
	2012	2011
Receivables due in less than one year	\$ 5,576,000	7,227,000
Receivables due in one to five years	8,350,000	14,072,000
Receivables due in more than five years	11,928,000	12,128,000
	25,854,000	33,427,000
Less allowance for uncollectible pledges	(384,000)	(573,000)
Less present value discounting	(3,480,000)	(3,917,000)
	\$ 21,990,000	28,937,000

Unconditional promises to give (pledges receivables) are from various entities including foundations, corporations, and individuals. The discount factor utilized in the present value calculation is the five-year U.S. Treasury note rate as of June 30th in the fiscal year in which the commitment is made.

Pledges receivables from two donors at June 30, 2012 represented approximately 70 percent of net pledges receivables. Pledges receivables from two donors at June 30, 2011 represented approximately 61 percent of net pledges receivables.

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

### (7) Capital Assets

Following are the changes in capital assets for the year ended June 30, 2012:

	Balance July 1, 2011	Additions	Transfers	Deletions	Balance June 30, 2012
Nondepreciable capital assets:					
Land	\$ 17,816,000	-	4,613,000	-	22,429,000
Land improvements	2,019,000	-	-	-	2,019,000
Construction in progress	38,432,000	109,964,000	(32,721,000)	(17,000)	115,658,000
Collections	2,195,000	422,000	-	-	2,617,000
Total nondepreciable capital assets	<u>60,462,000</u>	<u>110,386,000</u>	<u>(28,108,000)</u>	<u>(17,000)</u>	<u>142,723,000</u>
Depreciable capital assets:					
Land and leasehold improvements	68,891,000	-	4,911,000	-	73,802,000
Buildings and improvements	1,108,021,000	3,494,000	22,938,000	(1,168,000)	1,133,285,000
Software	8,483,000	47,741,000	259,000	(1,341,000)	55,142,000
Equipment	217,378,000	19,860,000	-	(8,185,000)	229,053,000
Library materials	87,881,000	1,106,000	-	(594,000)	88,393,000
Total depreciable capital assets	<u>1,490,654,000</u>	<u>72,201,000</u>	<u>28,108,000</u>	<u>(11,288,000)</u>	<u>1,579,675,000</u>
Less accumulated depreciation:					
Land and leasehold improvements	35,334,000	3,149,000	-	-	38,483,000
Buildings and improvements	327,959,000	34,370,000	-	(439,000)	361,890,000
Software	3,109,000	6,318,000	-	(1,043,000)	8,384,000
Equipment	159,891,000	18,394,000	-	(6,233,000)	172,052,000
Library materials	72,091,000	4,183,000	-	(594,000)	75,680,000
Total accumulated depreciation	<u>598,384,000</u>	<u>66,414,000</u>	<u>-</u>	<u>(8,309,000)</u>	<u>656,489,000</u>
Net depreciable capital assets	<u>892,270,000</u>	<u>5,787,000</u>	<u>28,108,000</u>	<u>(2,979,000)</u>	<u>923,186,000</u>
Total capital assets, net	<u>\$ 952,732,000</u>	<u>116,173,000</u>	<u>-</u>	<u>(2,996,000)</u>	<u>1,065,909,000</u>
Land includes the following conservation easements:					
Catspaw Conservation Easement	\$	3,155,000			
Snow Mountain Conservation Easement		5,000,000			
Elmgreen Conservation Easement		500,000			
Ben Delatour Forest Legacy Conservation Easement		<u>4,000,000</u>			
Total	\$	<u>12,655,000</u>			

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

Following are the changes in capital assets for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Transfers	Deletions	Balance June 30, 2011
Nondepreciable capital assets:					
Land	\$ 17,658,000	158,000	-	-	17,816,000
Land improvements	2,019,000	-	-	-	2,019,000
Construction in progress	236,016,000	71,410,000	(268,994,000)	-	38,432,000
Collections	2,024,000	176,000	-	(5,000)	2,195,000
Total nondepreciable capital assets	<u>257,717,000</u>	<u>71,744,000</u>	<u>(268,994,000)</u>	<u>(5,000)</u>	<u>60,462,000</u>
Depreciable capital assets:					
Land and leasehold improvements	61,780,000	-	7,111,000	-	68,891,000
Buildings and improvements	847,294,000	1,508,000	259,837,000	(618,000)	1,108,021,000
Software	4,123,000	3,821,000	815,000	(276,000)	8,483,000
Equipment	207,586,000	17,754,000	1,231,000	(9,193,000)	217,378,000
Library materials	91,876,000	1,465,000	-	(5,460,000)	87,881,000
Total depreciable capital assets	<u>1,212,659,000</u>	<u>24,548,000</u>	<u>268,994,000</u>	<u>(15,547,000)</u>	<u>1,490,654,000</u>
Less accumulated depreciation:					
Land and leasehold improvements	32,365,000	2,969,000	-	-	35,334,000
Buildings and improvements	298,997,000	29,553,000	-	(591,000)	327,959,000
Software	2,394,000	991,000	-	(276,000)	3,109,000
Equipment	152,014,000	16,070,000	-	(8,193,000)	159,891,000
Library materials	72,845,000	4,707,000	-	(5,461,000)	72,091,000
Total accumulated depreciation	<u>558,615,000</u>	<u>54,290,000</u>	<u>-</u>	<u>(14,521,000)</u>	<u>598,384,000</u>
Net depreciable capital assets	<u>654,044,000</u>	<u>(29,742,000)</u>	<u>268,994,000</u>	<u>(1,026,000)</u>	<u>892,270,000</u>
Total capital assets, net	<u>\$ 911,761,000</u>	<u>42,002,000</u>	<u>-</u>	<u>(1,031,000)</u>	<u>952,732,000</u>

GASB 51, *Accounting and Financial Reporting for Intangible Assets*, at June 30, 2011:

Capitalized software has been separated from the equipment information (see above).

Land includes the following conservation easements:

Catspaw Conservation Easement	\$ 3,155,000
Snow Mountain Conservation Easement	5,000,000
Elmgreen Conservation Easement	<u>500,000</u>
Total	<u>\$ 8,655,000</u>



## Colorado State University System

### Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

Interest expense capitalized, net of related interest income for the System, was \$6.8 million and \$6.3 million for the years ended June 30, 2012 and 2011, respectively.

**(8) Accrued Liabilities**

The current accrued liabilities balances as of June 30, 2012 and 2011 were comprised of:

	June 30	
	2012	2011
Accrued payroll and benefits	\$ 69,550,000	65,945,000
Emergency firefighting accrual	45,255,000	12,601,000
Accrued interest payable	9,754,000	8,372,000
Other liabilities	656,000	1,342,000
Total	\$125,215,000	88,260,000

**(9) Long-Term Liabilities**

Long-term liability activity for the fiscal year ended June 30, 2012 was as follows:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Bonds and capital lease obligations:					
Revenue bonds and COPs payable	\$ 508,697,000	203,542,000	(68,680,000)	643,559,000	10,633,000
Capital leases payable	6,737,000	2,224,000	(2,250,000)	6,711,000	1,798,000
Total bonds and capital leases	515,434,000	205,766,000	(70,930,000)	650,270,000	12,431,000
Other liabilities:					
Deposits held for others	26,389,000	31,683,000	(28,642,000)	29,430,000	5,950,000
Other	21,738,000	5,121,000	(505,000)	26,354,000	2,492,000
Accrued compensated absences	41,775,000	629,000	-	42,404,000	2,468,000
Total long-term liabilities	\$ 605,336,000	243,199,000	(100,077,000)	748,458,000	23,341,000

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

Long-term liability activity for the fiscal year ended June 30, 2011 was as follows:

	<b>Balance July 1, 2010</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2011</b>	<b>Amounts Due Within One Year</b>
Bonds and capital lease obligations:					
Revenue bonds and COPs payable	\$ 413,268,000	102,629,000	(7,200,000)	508,697,000	7,113,000
Capital leases payable	<u>6,612,000</u>	<u>2,179,000</u>	<u>(2,054,000)</u>	<u>6,737,000</u>	<u>1,663,000</u>
Total bonds and capital leases	419,880,000	104,808,000	(9,254,000)	515,434,000	8,776,000
Other liabilities:					
Deposits held for others	20,852,000	28,301,000	(22,764,000)	26,389,000	5,462,000
Other	17,269,000	4,770,000	(301,000)	21,738,000	2,288,000
Accrued compensated absences	<u>42,179,000</u>	<u>-</u>	<u>(404,000)</u>	<u>41,775,000</u>	<u>2,319,000</u>
Total long-term liabilities	<u>\$ 500,180,000</u>	<u>137,879,000</u>	<u>(32,723,000)</u>	<u>605,336,000</u>	<u>18,845,000</u>

### (10) Revenue Bonds and Certificates of Participation (COPs)

The revenue bonds consist of multiple issues to finance the acquisition, construction, repair, and equipping of various auxiliary and research facilities of the System. The revenue bonds are payable semiannually, have serial maturities, contain sinking fund requirements, and certain bonds contain optional redemption provisions. The optional redemption provisions allow the System to redeem at various dates, portions of the outstanding revenue bonds at 100 percent of the principal amount of the revenue bonds redeemed. Payment of the principal and interest on certain bonds is either insured by various financial guarantee insurance policies or qualifies for payment under the State Intercept Program, which provides payment by the State Treasurer if payment is not made by the due date.

On March 1, 2012, the System issued \$126.2 million in System Enterprise Revenue Bonds, Series 2012 A. The proceeds from the sale of the Series 2012 A will be used to pay or reimburse in part the costs of constructing, improving and equipping certain housing, classroom, laboratory, and other campus facilities at the CSU main campus in Fort Collins. The improvement projects at the main campus include the Lory Student Center Revitalization, Academic Village North, Animal Sciences Building Expansion, and Engineering II Building. Proceeds will also be used to acquire the University Village at Walking Stick student housing facility at the CSU-Pueblo campus.

On May 1, 2012, the System issued \$59.5 million in System Enterprise Revenue Refunding Bonds, Series 2012 B, C. The proceeds from the sale of the Series 2012 B, C will be used to advance refund all of the System's Series 2003 A and 2003 B Bonds and a portion of the System's Series 2005 B and 2007 A Bonds.

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

A general description of each bond issue, original issuance amount, and the amount outstanding as of June 30, 2012 and 2011 is detailed below.

Revenue bonds and COPs payable consisted of the following at June 30, 2012 and 2011:

	<u>Interest Range</u>	<u>2012</u>	<u>2011</u>
Colorado State University:			
Colorado State University Auxiliary Facilities Bonds of 2003 A, issued in the original amount of \$15.6 million and mature in varying annual amounts to March 2017. \$3.6 million advance refunded with 2007 B bond and the remaining amount advance refunded in full with 2012 C bond.	2.500%-5.250%	\$ -	5,935,000
Colorado State University Auxiliary Facilities Bonds of 2003 B, issued in the original amount of \$20.5 million and mature in varying annual amounts to March 2035. Advance refunded in full with 2012 B bond.	2.500%-5.000%	-	18,155,000
Colorado State University Auxiliary Facilities Bonds of 2005 B, issued in the original amount of \$45.2 million and mature in varying annual amounts to March 2035. \$12.2 million advance refunded with 2012 B bond.	3.500%-5.000%	29,560,000	42,775,000
Colorado State University – Pueblo: Recreational Facilities and Occiato Student Center Bonds of 2003, issued in the original amount of \$3.6 million and mature in varying annual amounts to August 2011.	2.000%-3.250%	-	490,000
Colorado State University System:			
Colorado State University System Enterprise Revenue Bonds of 2007 A, issued in the original amount of \$160.7 million and mature in varying annual amounts to March 2037. \$26.9 million advanced refunded with 2012 B bond.	4.625%-5.250%	133,730,000	160,665,000
Colorado State University System Enterprise Revenue Bonds of 2007 B, issued in the original amount of \$34.3 million and mature in varying annual amounts to March 2021.	4.000%-5.000%	17,165,000	19,460,000

## Colorado State University System

### Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

	<u>Interest Range</u>	<u>2012</u>	<u>2011</u>
Colorado State University System Enterprise Revenue Bonds of 2007 C, issued in the original amount of \$15.1 million and mature in varying annual amounts to March 2020.	5.883%	15,120,000	15,120,000
Colorado State University System Enterprise Revenue Bonds of 2008 A, issued in the original amount of \$83.3 million and mature in varying annual amounts to March 2038.	3.000%-5.000%	80,460,000	82,125,000
Colorado State University System Enterprise Revenue Bonds of 2009 A, issued in the original amount of \$56.1 million and mature in varying annual amounts to March 2039.	3.000%-5.000%	55,860,000	56,090,000
Colorado State University System Enterprise Revenue Bonds of 2010 A, issued in the original amount of \$25.3 million and mature in varying annual amounts to March 2020.	4.000%-5.000%	25,330,000	25,330,000
Colorado State University System Enterprise Revenue Bonds of 2010 B, issued in the original amount of \$40.3 million and mature in varying annual amounts to March 2033.	4.900%-5.957%	40,335,000	40,335,000
Colorado State University System Enterprise Revenue Bonds of 2010 C, issued in the original amount of \$33.3 million and mature in varying annual amounts to March 2040.	6.057%	33,250,000	33,250,000
Colorado State University System Enterprise Revenue Bonds of 2012 A, issued in the original amount of \$126.2 million and mature in varying annual amounts to March 2044.	2.000%-5.000%	126,245,000	-

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

	<u>Interest Range</u>	<u>2012</u>	<u>2011</u>
Colorado State University System Enterprise Revenue Bonds of 2012 B, issued in the original amount of \$54.1 million and mature in varying annual amounts to March 2035.	2.000%-5.000%	54,115,000	-
Colorado State University System Enterprise Revenue Bonds of 2012 C, issued in the original amount of \$5.3 million and mature in varying annual amounts to March 2017.	0.728%-1.864%	5,340,000	-
Unamortized bond premium/discount		32,169,000	6,427,000
Unamortized gain/loss on refunding		<u>(7,562,000)</u>	<u>-</u>
Total System Bonds		<u>641,117,000</u>	<u>506,157,000</u>
Colorado State University - Pueblo: Portion of the State of Colorado Certificate of Participation to remodel the Academic Resource Center (Library). Payable annually with a final maturity in 2029.	5.100%	<u>2,442,000</u>	<u>2,540,000</u>
Total System Certificates of Participation		<u>2,442,000</u>	<u>2,540,000</u>
Total System Bonds and Certificates of Participation		<u>\$ 643,559,000</u>	<u>508,697,000</u>

## Colorado State University System

### Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

The scheduled maturities of the revenue bonds and COPs as of June 30, 2012 are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total Payments</b>
2013	\$ 10,633,000	30,240,000	40,873,000
2014	10,782,000	30,296,000	41,078,000
2015	12,563,000	29,875,000	42,438,000
2016	13,093,000	29,328,000	42,421,000
2017	13,679,000	28,751,000	42,430,000
2018-2022	83,941,000	132,898,000	216,839,000
2023-2027	103,161,000	110,764,000	213,925,000
2028-2032	131,635,000	81,863,000	213,498,000
2033-2037	167,735,000	45,012,000	212,747,000
2038-2042	64,390,000	9,723,000	74,113,000
2043-2044	7,340,000	555,000	7,895,000
Total debt service maturities	618,952,000	529,305,000	1,148,257,000
Unamortized bond premium/discount	32,169,000		
Unamortized bond gain/loss on refunding	(7,562,000)		
Total	<u>\$ 643,559,000</u>		

The CSU Auxiliary Facilities Bonds are secured by a pledge of all net revenues derived at CSU from the operation of the auxiliary pledged facilities, special fees assessed to students or any other persons, and investment earnings on the balances in the applicable revenue fund.

The System Enterprise Revenue Bonds are secured by a pledge of 10 percent of all net revenues derived at the System from charges to students for the provision of general instruction by the System, 80 percent of the CSU facilities fee, 100 percent of the CSU-Pueblo facilities fee, and net revenues of the CSU Research Building Revolving Fund (RBRF) enterprise. Revenues from the RBRF enterprise include all revenues derived by CSU from the operation of the pledged facilities including allocated recoveries on research contracts and grants performed under the auspices of CSU. The pledge also includes the remaining pledged auxiliary revenue after current year debt service requirements on the 2003 and 2005 B bonds. Investment earnings from revenue sources are also included. See Note 12 for more information regarding these pledged revenues. The Revenue Bonds are special limited obligations of the Board of Governors and do not constitute a general obligation of the Board or the System.

There were no material events to report for fiscal years ended June 30, 2012 and 2011.

## Colorado State University System

### Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

#### (11) Defeased Obligations

On May 1 2012, the System issued \$59.5 million in System Enterprise Revenue Refunding Bonds; Series 2012 B, C with an average interest rate of 4.908072 percent to advance refund \$61.9 million of outstanding bonds with an average interest rate of 5.004180 percent. Refunded bonds included the Enterprise System Refunding and Improvement Revenue Bonds, Series 2003 A (\$5.1 million), Enterprise System Revenue Bonds, Series 2003 B (\$17.7 million), Enterprise System Revenue Bonds 2005 B (partial refund of \$12.2 million), and System Enterprise Revenue Bonds, Series 2007 A (partial refund of \$26.9 million). Net proceeds of \$70.2 million were deposited with an escrow agent. The System completed the 2012 B, C refunding to reduce its total debt service payments over the next 23 years by \$5.8 million and obtain an economic gain (difference between the present value of the debt service payments on the old debt and new debt) of \$3.8 million. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$7.6 million. This difference is reported in the accompanying financial statements as a deduction from bonds payable and is being amortized through fiscal year 2035.

The sources and uses of funds required for the transaction are shown below:

#### Sources

Principal amount of new debt	\$ 59,455,000
Net original issue premium	11,185,000
Total sources of funds	\$ 70,640,000

#### Uses

Refunding escrow deposits	\$ 70,210,000
Issuance costs	430,000
Total uses of funds	\$ 70,640,000

Calculation of difference in cash flow requirements and economic gain:

#### Cash flow difference

Old debt service cash flows	\$ 95,741,000
Less new debt service cash flows	89,933,000
Cash flow difference	\$ 5,808,000

#### Economic gain

Present value of old debt service cash flows	\$ 62,487,000
Less present value of new debt service cash flows	58,686,000
Economic gain	\$ 3,801,000

## Colorado State University System

### Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

Issuance costs were as follows:

Cost of issuance	\$	185,000
Underwriter's discount		235,000
Other uses of funds		10,000
Total issuance costs	\$	430,000

Calculation of reacquisition price over carrying value of old debt:

Reacquisition price	\$	69,846,000
Less carrying amount of old debt		62,228,000
Reacquisition price over carrying value of old debt	\$	7,618,000

In fiscal year 2008 the System issued System Enterprise Revenue Bonds, Series 2007 B to refund outstanding bonds and COPs and its net proceeds were also deposited with an escrow agent. The escrow deposits from both Series 2012 B, C and Series 2007 B are being used to purchase certain U.S. governmental obligations. The principal and interest from the U.S. governmental obligations will be sufficient to enable the escrow agent to make all future debt service payments on the refunded bonds and COPs. As a result, the refunded bonds and COPs are considered to be defeased and the liability for those bonds is no longer reflected in the Statement of Net Assets.

The following bonds and certificates of participation were included in the refundings and have since been redeemed: Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds, Series 1996; Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds, Series 1997; Certificates of Participation, Series, 1997; Student Sports Recreational Facilities Revenue Bonds, Series 1998; and Research Building Revolving Fund Enterprise Revenue Bonds, Series 2001. The Enterprise System Refunding and Improvement Revenue Bonds, Series 2003 A (partially refunded on 2007 B and fully refunded on 2012 C); Research Building Revolving Fund Enterprise Revenue Bonds 2005 A (fully refunded on 2007 B); Enterprise System Revenue Bonds, Series 2003 B (fully refunded on 2012 B); Enterprise System Revenue Bonds, Series 2005 B (partially refunded on 2012 B); System Enterprise Revenue Bonds, and Series 2007 A (partially refunded on 2012 B) were also refunded and have remaining defeased obligations at June 30, 2012 as follows:

	<b>Original Amount Refunded</b>	<b>Balance June 30, 2012</b>
CSU Enterprise System Refunding and Improvement Revenue Bonds, Series 2003 A	\$ 8,665,000	7,010,000
CSU Research Building Revolving Fund Enterprise Revenue Bonds, Series 2005 A	9,535,000	6,685,000
CSU Enterprise System Revenue Bonds, Series 2003 B	17,715,000	17,715,000
CSU Enterprise System Revenue Bonds, Series 2005 B	12,200,000	12,200,000
CSU Enterprise System Revenue Bonds, Series 2007 A	26,935,000	26,935,000
	\$ 75,050,000	70,545,000



## Colorado State University System

### Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

**(12) Pledged Revenues and Related Expenses**

CSU and CSU-Pueblo are required to pledge certain revenues and report related expenses in accordance with the various bond resolutions. The pledged revenues and related expenses were as follows:

- a) CSU Enterprise System Refunding and Improvement Revenue Bonds (including Auxiliary Facilities Refunding and Improvement Revenue Bonds and Student Sports Recreational Facilities Revenue Bonds):

Pledged by auxiliary revenues.

	June 30	
	2012	2011
Operating revenues – pledged auxiliary revenues	\$ 104,929,000	103,848,000
Operating expenses	(87,382,000)	(85,778,000)
Pledged revenues over operating expenses	17,547,000	18,070,000
Net nonoperating expenses	(10,570,000)	(9,496,000)
Other revenues and transfers	(170,000)	182,000
Net increase	\$ 6,807,000	8,756,000

- b) CSU-Pueblo Auxiliary Facilities Enterprise Refunding and Improvement Revenue Bonds:

Pledged by auxiliary revenues.

	June 30	
	2012	2011
Operating revenues – pledged auxiliary revenues	\$ 13,574,000	12,210,000
Operating expenses	(9,956,000)	(8,630,000)
Pledged revenue over operating expenses	3,618,000	3,580,000
Other revenues and transfers	(2,104,000)	(3,047,000)
Net increase	\$ 1,514,000	533,000

## Colorado State University System

### Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

- c) System Enterprise Revenue Bonds (including Tuition and University Facilities Fees Revenue Bonds):

Pledged by 10 percent System tuition revenues, 80 percent CSU facilities fees revenues, 100 percent CSU-Pueblo facilities fees revenues, CSU research building revolving fund revenues, and remaining auxiliary revenue after current year debt service requirements for the 2003 and 2005 B bond issues.

	June 30	
	2012	2011
Operating revenues	\$ 45,816,000	41,855,000
Operating expenses	(663,000)	(621,000)
Pledged revenues over operating expenses	45,153,000	41,234,000
Net nonoperating expenses	(9,620,000)	(8,650,000)
Other revenues and transfers	2,911,000	6,583,000
Net increase	\$ 38,444,000	39,167,000

The debt covenants for the above bonds require indirect cost recoveries from research-related grants to be pledged. The pledged revenue reported above includes \$2.9 million and \$3.2 million in indirect cost recoveries for the fiscal years ended June 30, 2012 and 2011, respectively, which is the amount of actual cost recoveries used to support the related bond activity. The remaining amount of indirect cost recoveries required to be pledged is \$46.1 million and \$42.2 million for the fiscal years ended June 30, 2012 and 2011, respectively.

The revenue bonds contain provisions to establish and maintain reasonable fees, rates, and other charges to ensure gross revenues are sufficient for debt service coverage. The System is also required to comply with various other covenants while the bonds are outstanding. Managements of the two institutions believe the universities have met all debt service coverage ratios and have complied with all bond covenants.

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

### (13) Capital Lease Obligations

The following is a schedule of the System's future minimum lease payments for obligations under capital leases for each of the five subsequent fiscal years and for five-year increments thereafter.

	<u>Total</u>
Fiscal year ending June 30:	
2013	\$ 2,005,000
2014	1,852,000
2015	1,202,000
2016	1,081,000
2017	886,000
2018-2022	<u>226,000</u>
Minimum future lease payments	7,252,000
Less amount representing interest	<u>541,000</u>
Present value of minimum lease payments	<u>\$ 6,711,000</u>

Capital lease agreements have been utilized to provide for the use of property and equipment. As of June 30, 2012 and 2011, respectively, the System had capital lease obligations in effect with capitalized asset costs of \$16.4 million and \$15.6 million; accumulated depreciation of \$5.5 million and \$4.8 million; and related outstanding liabilities of \$6.7 million and \$6.7 million.

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

### (14) Operating Leases

The following is a schedule of the System's aggregate minimum rental commitments for operating leases of real and personal property for each of the five subsequent fiscal years and for five-year increments thereafter.

	<b>Future Minimum Obligations For Operating Leases</b>
Fiscal year ending June 30:	
2013	\$ 1,756,000
2014	1,517,000
2015	1,397,000
2016	665,000
2017	446,000
2018-2022	1,304,000
Total	<u>\$ 7,085,000</u>

Rent expense was \$1.7 million and \$1.4 million for fiscal years ended June 30, 2012 and 2011, respectively.

CSU-Pueblo leases a football stadium from a non-profit organization. The lease expires June 12, 2028 and is renewable subject to CSU-Pueblo meeting certain requirements as specified in the lease terms. The annual rent of the lease is \$100; however, CSU-Pueblo pays the annual costs of maintenance and upkeep for the lease premises.

### (15) Net Assets

The System is subject to multiple constraints, including those imposed by Colorado Constitutional and related legislative actions, State of Colorado statutes, and bond covenants in conjunction with statutory provisions on pledging revenues of the auxiliary facilities.

Student loan money is expended according to external restrictions imposed by the program funding sources. The federal programs are administered according to Department of Education Blue Book guidelines. The state match money is restricted by the Colorado Commission on Higher Education policy for student loan programs. The amounts restricted are \$25.8 million and \$26.2 million and are reported as restricted net assets - expendable on the financial statements as of June 30, 2012 and 2011, respectively.

The auxiliary facilities included in the CSU Student and Faculty Services have outstanding debt that is supported by pledges of revenue earned by the facilities. Under the bond covenants and statutes in effect at the time of debt issuance, any excess reserves earned by the auxiliary facilities are restricted for use by the auxiliary operations. The amounts so restricted of \$30.1 million and

## Colorado State University System

### Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

\$33.7 million are reported as restricted net assets - expendable on the financial statements as of June 30, 2012 and 2011, respectively.

Colorado Revised Statute 23-31-135 requires a support fee to be annually assessed to cooperative state or accountable students in the System's professional veterinary medicine program. The statute specifies that this fee must be credited to a reserve account and used for renovation projects and for the acquisition or replacement of equipment. As of June 30, 2012 and 2011, this reserve had net assets of \$1.5 million and \$1.9 million, respectively. These amounts were reported as restricted net assets - expendable on the statements of net assets.

Total restricted net assets were as follows:

	June 30	
	2012	2011
Restricted for nonexpendable purposes:		
Scholarships, research and other	\$ 13,520,000	12,267,000
Federal Land Grant Act Account - nonexpendable	9,076,000	8,296,000
Total	\$ 22,596,000	20,563,000
Restricted for expendable purposes:		
Federal Land Grant Act Income		
Account - expendable	\$ 3,563,000	5,156,000
Student loans	25,839,000	26,156,000
Colorado Water Institute	348,000	387,000
Sponsored programs	-	1,235,000
Gifts	1,235,000	1,796,000
Plant fund gifts not capitalized	3,033,000	-
Auxiliary pledged net assets	30,127,000	33,657,000
Tuition and fee pledged assets	8,268,000	6,270,000
Research Building Revolving Fund	2,988,000	3,002,000
Equipment reserve for Vet Med	1,528,000	1,871,000
Colorado State Forest Service legislative funds	8,684,000	10,736,000
Other	-	116,000
Total	\$ 85,613,000	90,382,000

Although other amounts reflected in unrestricted net assets are not externally restricted, they may be internally designated by the System's administration for various purposes.

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

In regard to the net assets of the Foundation, temporarily restricted net assets and the income earned on permanently restricted net assets, consisting of endowment funds to be held in perpetuity, are available to support CSU by providing funds for student scholarships, capital improvements, research, and other educational purposes and activities. Also, as of June 30, 2012 and 2011, the Foundation's Board has designated \$26.5 million and \$28.9 million, respectively, of the unrestricted net assets to be used for board-designated endowments.

### (16) Commitments

Outstanding purchase order commitments against future funds not reflected in the financial statements at June 30, 2012 were \$111.0 million. These outstanding purchase order commitments included \$57.7 million of System capital construction commitments. CSU capital construction commitments included approximately \$19.6 million for the Engineering II Building, \$9.6 million for the Braiden Hall 4<sup>th</sup> Floor Addition, \$4.4 million for the Lory Student Center Revitalization, \$3.7 million for the Research Innovation Center Imaging Suite, \$3.2 million for the Academic Village North, \$2.9 million for the Corbett Hall Exterior Modernization Phase II, \$2.7 million for the Equine Reproduction Lab Building Replacement, \$2.0 million for the Parmelee Hall 4<sup>th</sup> Floor Addition, \$1.2 million for the Animal Sciences Building Renovation and \$1.1 million for the Library-Hartshorn Parking Lot. The remaining capital construction commitments were for other smaller projects at CSU and CSU-Pueblo. Of the remaining noncapital purchase order commitments, \$33.3 million were related to CSU sponsored contracts and grants.

In addition to purchase order commitments, CSU has contracted obligations of \$22.5 million at June 30, 2012 related to employment hiring incentives and shared costs on long-term federal contracts. The hiring incentives arise in recruiting faculty and research scientists whereby the University commits to pay for various laboratory remodeling, equipment and other costs that are important to the person in accepting the position. This obligation is binding on the University upon acceptance of the employment offer. The shared cost obligations arise in connection with federal contracts and grants in which the University agrees to pay for certain costs beyond what would otherwise be reimbursed by the sponsor under the contract or grant. Although the University can exercise cancellation clauses to avoid these shared cost obligations, the University has not used that option to avoid such obligations, and such obligation is considered highly probable. In both cases, settlement of the obligation involves payments to third parties, generally within three years.

Outstanding commitments at June 30, 2012 were:

Purchase order commitments	\$ 111,006,000
Shared cost obligations on long-term revenue contracts	15,800,000
Obligations under accepted employment offers	<u>6,736,000</u>
Total	<u><u>\$ 133,542,000</u></u>

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

### (17) Employment Benefits

Employees of the System, eligible for retirement benefits, participate in one of three retirement plans. Eligible student employees participate in a Student Employee Retirement Plan (SERP), which is funded solely by student contributions. The SERP is a defined contribution plan administered by a consortium of institutions of higher education in the State. All other eligible employees of the System participate in one of two additional plans, the Public Employees' Retirement Association Defined Benefit Plan (PERA) or an Optional Retirement Plan (ORP), subject to eligibility criteria defined by PERA and the University for each separate governing entity.

The System's total payroll for the fiscal years ended June 30, 2012 and 2011 was approximately \$482.8 million and \$474.3 million, respectively. Payroll for employees covered by the PERA plan, the optional defined contribution plan, and the student retirement plan was approximately \$144.3 million, \$273.8 million, and \$16.8 million, respectively, for the fiscal year ended June 30, 2012 and \$149.5 million, \$260.9 million, and \$13.9 million, respectively, for the fiscal year ended June 30, 2011. The remaining employees were not eligible for participation in any of the System's plans.

#### (a) *PERA Defined Benefit Pension Plan*

##### **Plan Description**

Employees of the System deemed eligible under PERA's membership rules for institutions of higher education may participate in the Defined Benefit Pension Plan. The purpose of the Defined Benefit Pension Plan is to provide lifetime retirement income to PERA annuitants and/or their families in the case of death or disability. The plan is a cost sharing multiple-employer plan administered by PERA. PERA was established by State statute in 1931. Responsibility for the organization and administration of the plan is placed with the PERA Board of Trustees. Changes to the plan require an actuarial assessment and legislation by the General Assembly. The State plan and other divisions' plans are included in PERA's financial statements, which may be obtained by writing PERA at P.O. Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

Prior to legislation passed in 2006, all classes of employees, except classified staff, may have participated in social security, PERA's Defined Benefit Plan, or the institution's Optional Retirement Plan (ORP) at institutions of higher education (excluding community colleges and School of Mines). Currently, higher education employees, except for classified staff, are required to participate in their institution's ORP, if available, unless they have been an active PERA participant with at least 12 months of service credit, an inactive member with that amount of service credit or a current PERA retiree. In that case, they may elect either PERA or their institution's ORP. However, unless the employee is a PERA retiree, the employee may not elect PERA as their retirement plan if they have previously been employed by a public college or university in Colorado offering an ORP if during that employment the employee made an election to participate in that institution's ORP. Eligible employees are allowed to enroll in PERA if such election is made within 30 days of their beginning date of

## Colorado State University System

### Notes to Basic Financial Statements

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eligibility. Effective January 1, 2011, present PERA retirees may elect either PERA or the ORP as their retirement plan each time they are reappointed.

Vesting for plan members occurs after five years of service and members are eligible for retirement benefits based on their hire dates as follows:

- Hired before July 1, 2005 – at age 50 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between July 1, 2005 and December 31, 2006 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 20 years of service, or age 65 with 5 years of service.
- Hired between January 1, 2007 and December 31, 2010 – any age with 35 years of service, age 55 with 30 years of service, age 60 with 25 years of service, or age 65 with 5 years of service. For members with less than five years of service credit as of January 1, 2011, age and service requirements increase to those required for members hired between January 1, 2007 and December 31, 2010.
- Hired between January 1, 2011 and December 31, 2016 – any age with 35 years of service, age 58 with 30 years of service, age 65 with 5 years of service.
- Hired on or after January 1, 2017 – any age with 35 years of service, age 58 with 30 years of service, or age 65 with 5 years of service.

Members are also eligible for retirement benefits without a reduction for early retirement based on their original hire date as follows:

- Hired before January 1, 2007 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 80 or more.
- Hired between January 1, 2007 and December 31, 2010 – age 55 with a minimum of 5 years of service credit and age plus years of service equals 85 or more.
- Hired between January 1, 2011 and December 31, 2016 – age 58 and age plus years of service equals 88 or more.
- Hired on or after January 1, 2017 – age 60 and age plus years of service equals 90.

Members automatically receive the higher of the Defined Benefit Retirement Plan or the money purchase benefit at retirement. Defined benefits are calculated as 2.5 percent times the number of years of service times the highest average salary (HAS). For retirements before January 1, 2009, HAS is calculated as one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit and limited to a 15 percent increase between periods.

For retirements after January 1, 2009, or persons hired on or after January 1, 2007, more restrictive limits are placed on salary increases between periods used in calculating HAS.



# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

Retiree benefits are increased annually in July after one year of retirement based on the member's original hire date as follows:

- Hired before July 1, 2007 – the lesser of 2 percent or the average of the monthly Consumer Price Index (CPI) increases.
- Hired on or after January 1, 2007 – the lesser of 2 percent or the actual increase in the national Consumer Price Index, limited to a 10 percent reduction in a reserve established for cost of living increases related strictly to those hired on or after January 1, 2007. (The reserve is funded by 1 percentage point of salaries contributed by employers for employees hired on or after January 1, 2007.)

The upper limits on benefits increase by one-quarter percentage point each year when the funded ratio of PERA equals or exceeds 103 percent and declines by one-quarter percentage point when the funded ratio drops below 90 percent after having exceeded 103 percent. The funded ratio increase does not apply for three years when a negative return on investment occurs.

Members who are disabled, who have five or more years of service credit, six months of which have been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled. If a member dies before retirement, their spouse or their eligible children under the age of 18 (23 if a full-time student) are entitled to a single payment or monthly benefit payments. If there is no eligible child or spouse, then financially dependent parents, beneficiaries, or the member's estate, may be entitled to a survivor's benefit.

### **Funding Policy**

The contribution requirements of plan members and their employers are established, and may be amended, by the General Assembly. The annual gross covered wages subject to PERA are gross earnings less any reduction in pay to offset employer contributions to the state sponsored plan established under Section 125 of the Internal Revenue Code.

Prior to July 1, 2010, employees contributed 8 percent of their salary, as defined in CRS 24-51-101(42), to an individual account in the plan. Effective July 1, 2010, Senate Bill 10-146 required members in the State to pay 2.5 percent additional member contributions through June 30, 2011. Effective July 1, 2011, Senate Bill 11-076 extended the requirement for members in the State to pay 2.5 percent additional member contributions through June 30, 2012. Employer contributions for members were reduced by 2.5 percent.

From July 1, 2011 to December 31, 2011, the System contributed 12.25 percent of the employee's salary. From January 1, 2012 through June 30, 2012, the System contributed 13.15 percent. During all of fiscal year 2012, 1.02 percent of the employees' total salary was allocated to the Health Care Trust Fund.

## Colorado State University System

### Notes to Basic Financial Statements

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Per Colorado Revised Statutes CRS 24-51-211(1), an amortization period of 30 years is deemed actuarially sound. At December 31, 2011, the division of PERA in which the State participates had a funded ratio of 57.7 percent and a 56 year amortization period based on current contribution rates. The funded ratio on the market value of assets was lower at 57.6 percent.

In the 2004 and 2010 legislative sessions, the General Assembly authorized an Amortization Equalization Disbursement (AED) to address a pension-funding shortfall. The AED required PERA employers to pay an additional 0.5 percent of salary for calendar years 2006 and 2007, with subsequent year increases of 0.4 percent of salary through 2017, to a maximum of 5 percent.

In the 2006 and 2010 legislative sessions, the General Assembly authorized a Supplemental Amortization Equalization Disbursement (SAED) that requires PERA employers to pay an additional one-half percentage point of total salaries, for calendar years 2008 through 2017, to a maximum of 5 percent. The SAED will be deducted from the amount otherwise available to increase State employees' salaries.

Both the AED and SAED will be reduced by a one-half percentage point when funding levels reach 103 percent, and both will be increased by a one-half percent point when the funding level subsequently falls below 90 percent.

Historically members have been allowed to purchase service credit at reduced rates. However, legislation passed in the 2006 session, required that future agreements to purchase service credit be sufficient to fund the related actuarial liability.

The System's payroll contributions to PERA for the fiscal years ended June 30, 2012, 2011, and 2010 were approximately \$18.5 million, \$17.8 million, and \$20.7 million, respectively. These contributions met the contribution requirement for each year.

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The System provides certain of its employees with pension benefits through the State's PERA defined benefit retirement program.

GASB Statement No. 68 requires cost-sharing employers participating in the PERA program, such as the System, to record their proportionate share, as defined in Statement No. 68, of PERA's unfunded pension liability. The System has no legal obligation to fund this shortfall nor does it have any ability to affect funding, benefit, or annual required contribution decisions made by PERA and the General Assembly. The requirement of Statement No. 68 to record a portion of PERA's unfunded liability will negatively impact the System's future unrestricted net position. Statement No. 68 is effective for fiscal year 2015. At this time, management is unable to estimate the magnitude of this impact. Information regarding PERA's current funding status can be found in their Comprehensive Annual Financial Report.

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

**(b) Voluntary Tax-Deferred Retirement Plans**

PERA offers a voluntary 401(k) plan entirely separate from the Defined Benefit Pension Plan. Certain agencies and institutions of the State offer 403(b) or 401(a) plans. The PERA Deferred Compensation Plan (457) was established July 1, 2009, as a continuation of the state's deferred compensation plan which was established for state and local government employees in 1981. At July 1, 2009, the state's administrative functions were transferred to PERA, and all cost of administration and funding are borne by the plan participants.

**(c) University Optional Retirement Plan – The Defined Contribution Plan for Retirement (DCP)**

Under the University's optional retirement plan, all Academic Faculty, Administrative Professionals, Post-Doctoral Fellows, Veterinary Interns and Clinical Psychology Interns appointed on or after April 1, 1993, are required as a condition of employment under Colorado law to participate in either the University's Defined Contribution Plan (DCP) for Retirement or, in very limited cases, in the PERA Defined Benefit plan (as eligibility permits). DCP participants may select from three investment companies as follows:

1. Fidelity Investments / MetLife (eligible Faculty/Staff at CSU-Pueblo do not have access to this investment company)
2. Teachers Insurance and Annuity Association (TIAA)
3. Variable Annuity Life Insurance Corporation (VALIC)

The defined contribution retirement plans are established pursuant to state statute (24-54.5-101 to 24-54.5-107 CRS). The CSU plan was adopted by the Board of Governors in December 1992 and the CSU-Pueblo plan was adopted in April 1993. The Defined Contribution Retirement Plan is a qualified plan under Section 401(a) of the IRC. CSU and CSU-Pueblo are the Plan Sponsors. All participants contribute the required 8 percent of eligible salary. As required, CSU provides a matching contribution of 9 percent of eligible salary for all "permanent" appointees (those with regular and special appointments at half-time or greater) and for temporary appointees with appointments of half-time or greater for the second and subsequent consecutive year(s). CSU-Pueblo provides a matching contribution of 11.1 percent, as required, of eligible salary for all nonstudent employees, including those employees at less than half-time and nonstudent temporary, hourly employees. Both employee and employer contributions are vested immediately. Investments are participant-directed within the funds available through the authorized investment companies. The System's aggregate contribution to the above three vendors was equal to 8.8 percent of covered payroll or approximately \$24.0 million for the fiscal year ended June 30, 2012 and 8.7 percent of covered payroll or approximately \$22.8 million for the fiscal year ended June 30, 2011. The employee aggregate contribution to the above three vendors was equal to 8.0 percent of covered payroll or approximately \$21.9 million for the fiscal year ended June 30, 2012 and \$20.9 million for the fiscal year ended June 30, 2011.

The Federal retirement system covers a very limited number of employees at CSU Extension. The System's contribution to this plan was approximately \$177 thousand for fiscal year ended June 30, 2012 and \$205 thousand for fiscal year ended June 30, 2011.

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

**(d) *Student Employee Retirement Program***

Eligible student employees contribute 7.5 percent of covered payroll to the student employee retirement program (SERP). The SERP is funded entirely through employee contributions with no employer match. The SERP is a mandatory plan for all student employees who are enrolled at CSU but are not classified as a half-time student or greater. The SERP was established pursuant to state statute (24-54.6-101 through 24-54.6-106 CRS) as a mandatory nonqualified plan under 403(b) of the IRC in lieu of mandatory old age, survivors, and disability insurance (OASDI) coverage. The student retirement plan is a defined contribution plan administered by the individual agencies that make up the System, as applicable. All contributions are vested immediately and are participant-directed within the funds available through the sole investment company, TIAA-CREF. The contribution by student employees for the fiscal years ended June 30, 2012 and June 30, 2011, was approximately \$1.3 million and \$1.0 million, respectively.

**(e) *Health Insurance Programs***

The System's contribution to the various health insurance programs was approximately \$15.7 million and \$14.8 million for the fiscal years ended June 30, 2012 and 2011, respectively.

**(18) *Risk Financing and Insurance-Related Activities***

CSU manages a combination of self-insured and fully insured property and casualty insurance programs to best protect the University's assets. At CSU, separate accounts currently make up the self-insured program: workers' compensation, liability, auto comprehensive/collision and property. CSU contracts various day-to-day operations of the self-funded benefit plan, including claims processing, to third-party administrators. CSU carries excess insurance for liability and workers' compensation claims over \$500 thousand per occurrence, including claims arising from employment practices. CSU self-insures for property insurance claims less than \$100 thousand per occurrence with a one thousand dollar deductible per occurrence paid by the university department incurring the loss. CSU purchases property insurance with limits of \$1.0 billion. In addition to this, CSU carries auto insurance for out of state vehicles and workers' compensation for out of state employees, student intern professional liability, professional liability insurance (Architects & Engineers), crime insurance, foreign liability insurance, TULIP (Tenant User Liability Insurance Program), and self-insures for in-state auto insurance.

In addition to the above, CSU is self-insured for various other risks of loss. At CSU, separate accounts currently make up the self-insured program: healthcare, dental, short-term disability, and an unallocated reserve fund. CSU contracts various day-to-day operations of the self-funded benefit plans, including claims processing, to third-party administrators. Program funding is derived from premiums paid by benefit plan participants. The self-funded benefit plans are fully self-insured except for healthcare coverage, which is reinsured for plan expenses above \$200 thousand in claims per covered employee per year. The Unallocated Reserve Account is a general contingency fund for miscellaneous and unanticipated expenses of the other health related accounts. CSU also provides post-employment healthcare premium subsidies to faculty and administrative professional retirees. The post-employment healthcare premium subsidies and the "umbrella prescription plan" are funded by CSU contributions.

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

The amount of claims and administrative costs for the self-funded plans for fiscal years ended June 30, 2012 and 2011 did not exceed plan revenues and reserves. Exempt employees may select from various benefit plans and may elect to make certain contributions in the form of a pre-tax salary reduction.

The above health related programs had estimated claim liabilities of \$26.5 million and \$21.3 million at June 30, 2012 and 2011, respectively, which include incurred but not reported claims (IBNR) along with known claims at year-end. These estimates are made through a combination of analyzing payments in early months of the subsequent year, historical trends, and industry guidelines.

In addition to these claims, workers' compensation had estimated claim liabilities of \$5.4 million and \$5.3 million at June 30, 2012 and 2011, respectively. Liability self-insurance had estimated claim liabilities of \$258 thousand and \$446 thousand at June 30, 2012 and 2011, respectively. These estimates are based on current data and actuarial reports. Property self-insurance had no estimated claim liabilities at June 30, 2012 and 2011.

The changes in the balance of claim liabilities were as follows:

	<b>2012</b>	<b>2011</b>
Claim liabilities, beginning of year	\$ 27,013,000	21,766,000
Incurred claims (including IBNR)	37,371,000	34,865,000
Claim payments	(32,222,000)	(29,618,000)
Claim liabilities, end of year	\$ 32,162,000	27,013,000

Claims liabilities are recorded in accrued liabilities and other long-term liabilities on the statements of net assets.

**(19) Post-Employment Healthcare and Life Insurance Benefits**

*(a) PERA Post-Employment Healthcare Plan*

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the program and the Health Care Fund; the program was converted to a trust fund in 1999. The benefits and employer contributions are established in statute and may be amended by the General Assembly. PERA includes the Health Care Trust Fund in its Comprehensive Annual Financial Report, which may be obtained by writing PERA at P.O. Box 5800, Denver, Colorado 80217, by calling PERA at 1-800-759-PERA (7372), or by visiting <http://www.copera.org>.

## Colorado State University System

### Notes to Basic Financial Statements

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The plan is a cost-sharing multiple-employer plan under which PERA subsidizes a portion of the monthly premium for healthcare coverage. The benefit recipient pays any remaining amount of the premium through an automatic deduction from the monthly retirement benefit. Effective July 1, 2000, the maximum monthly subsidy is \$230 per month for benefit recipients who are under 65 years of age and who are not entitled to Medicare; and \$115 per month for benefit recipients who are 65 years of age or older or who are under 65 years of age and entitled to Medicare. The maximum subsidy is based on the recipient having 20 years of service credit, and is subject to reduction by 5 percent for each year less than 20 years.

The Health Care Trust Fund is maintained by an employer's contribution of 1.02 percent of covered salary. The System paid \$1.5 million into this fund during both fiscal years ended June 30, 2012 and 2011. In each year the amount contributed was 100 percent of the required contribution. Monthly premium costs for participants depend on the healthcare plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. As of December 31, 2011, there were 50,217 enrollees in the plan. At December 31, 2011, the plan had an unfunded actuarial liability of \$1.4 billion, a funded ratio of 16.5 percent, and a 49 year amortization period.

#### *(b) Other Post-Employment Benefits (OPEB) – CSU*

##### **Plan Descriptions**

CSU contributes to three single-employer defined benefit healthcare plans: CSU Retiree Medical Premium Refund plan (DCP Subsidy), Retiree Medical Premium Subsidy for PERA Participants (PERA Subsidy), and the Umbrella Rx (Rx Subsidy). Each plan provides medical benefits to eligible retired CSU faculty and nonclassified employees with the Rx Subsidy extending benefit coverage to spouses and dependents that elect to participate. CSU also has a self-insured Long-Term Disability (LTD) Income Replacement Plan. This plan provides income replacement after the 91<sup>st</sup> consecutive calendar day of total disability. Benefit provisions for each of the plans are established and amended through the Board of Governors of the Colorado State University System. CSU does not issue separate financial reports for the plans.

##### **DCP Subsidy**

Employees who retire from the University at age 55 with 20 or more years of service or age 60 with five or more years of service are eligible for this benefit. For eligible retirees with 20 or more years of service, CSU pays a healthcare premium refund of the lesser of \$200 per month or the actual cost of the retiree's (not including dependents) health insurance. Benefits are prorated for service between five and 20 years. DCP participants include employees who were hired after April 1, 1993 who have less than one year of participation in PERA or employees with such previous participation in PERA who elect to enroll in the DCP at the time of appointment. DCP participants also include certain employees hired prior to April 19, 1993 who made a one time, irrevocable election at the time of implementation to

# Colorado State University System

## Notes to Basic Financial Statements

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terminate participation in PERA and join the DCP. The plan is administered by American Administrators Group.

The DCP Subsidy is a revocable trust whereby the plan assets are restricted to expenditures necessary and appropriate to fulfilling the purpose of the plan. On an annual basis, CSU provides funding equal to one percent of covered participant's payroll. To the extent the funds are not utilized in covering benefits, they are maintained in the revocable trust and earn interest. The funds available to cover the plan benefits were \$31.4 million and \$29.2 million for the years ended June 30, 2012 and 2011, respectively. Funds provided for the benefit of the program include an amount equal to the annual OPEB cost of \$2.5 million for both years ended June 30, 2012 and 2011, plus the corresponding interest income less plan costs. Total amounts paid by CSU to retirees for this healthcare subsidy were \$576 thousand and \$506 thousand for fiscal years ended June 30, 2012 and 2011, respectively. As of June 30, 2012 and 2011, 291 and 287 former employees, respectively, were qualified to receive such benefits.

### **PERA Subsidy**

University faculty and nonclassified staff participating in the PERA retirement plan who retire from the University with at least ten years of University service, are eligible to receive a subsidy. The amount of the subsidy for eligible retirees is their out-of-pocket expenses for retiree only coverage or an amount equal to the premium for single coverage under the lowest cost plan available to active faculty and nonclassified staff, whichever is less. The plan is administered by PERA which bills CSU on a monthly basis for the applicable premiums. On an annual basis, funds equal to the annual OPEB costs are set aside, along with the related interest income, in an internal service fund to cover plan benefits. The funds available to cover the plan benefits were \$14.3 million and \$11.4 million for the fiscal years ended June 30, 2012 and 2011, respectively. The annual OPEB costs for fiscal years ended June 30, 2012 and 2011 were \$4.0 million and \$4.0 million, respectively. The average number of beneficiaries of this subsidy was 512 and 514 for fiscal years ended June 30, 2012 and 2011, respectively. The benefits paid by the University were \$1.3 million and \$1.2 million, for fiscal years ended June 30, 2012 and 2011, respectively.

### **Rx Subsidy**

The University provides reimbursement for the prescription copayments made by eligible faculty and nonclassified staff who retire from the System under the PERA retirement plan with at least 10 years of service. Retirees have to be age 65 or older or eligible for Medicare and enrolled in the PERA Medicare supplement plan to be eligible for this plan. PERA provides a prescription insurance program through Caremark for retirees enrolled in any medical insurance plan. The Caremark insurance program covers the cost of prescriptions after the member pays a copay which varies depending on whether the prescription is purchased through a local retail pharmacy or through Caremark's mail-order pharmacy, and whether the drug is generic or a brand-name drug. The Umbrella Rx plan reimburses the retiree for the complete cost of the prescription copay less a \$10 copay for retail and a \$20 copay per prescription for mail-order drugs. Spouses and dependents of retirees enrolled in the plan can be covered with the payment of \$44 per month for those enrolled in Medicare or

# Colorado State University System

## Notes to Basic Financial Statements

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\$99 per month for those not enrolled in Medicare. The plan is administered by Employee Benefit Management Services, Inc.

CSU set aside funds in an internal service fund equal to the OPEB obligation of \$410 thousand and \$341 thousand at fiscal years ended June 30, 2012 and 2011, respectively. These funds, which include those previously set aside, along with the amounts paid in by participants of \$36 thousand in fiscal year 2012 and the related interest income, have resulted in total funds available of \$375 thousand and \$333 thousand as of fiscal years ended June 30, 2012 and 2011, respectively, for this plan. Plan members were reimbursed \$111 thousand and \$82 thousand for the fiscal years ended June 30, 2012 and 2011, respectively.

### **Long-Term Disability Insurance Subsidy**

The University contributes to the LTD income replacement plan. This plan provides a monthly income replacement benefit which begins on the 91<sup>st</sup> consecutive calendar day of total disability. The LTD coverage provides the eligible PERA or Federal Retirement Plan participants with up to 60 percent of pre-disability covered monthly salary, not to exceed six thousand dollars per month, or up to 69 percent of covered monthly salary, not to exceed seven thousand dollars per month for DCP participants. The income replacement benefit will increase three percent annually. The plan is offset by any other benefits or earnings received or eligible to be received from other sources such as Social Security or Workers' Compensation. The minimum income replacement benefit is \$50 per month. Employees are eligible to receive benefits until one of the following circumstances occur: recovery, death, age 65 if disabled when less than 60, four and three-fourths years if disabled between the ages of 60 and 65, or age 70 if disabled between the ages of 65 and 70. This plan is administered by Assurant Insurance Company.

CSU set aside funds in an internal service fund equal to the OPEB obligations of \$631 thousand and \$634 thousand at fiscal years ended June 30, 2012 and 2011, respectively. These funds, which include those previously set aside and the related interest income, have resulted in total funds available of \$4.9 million and \$5.0 million as of fiscal years ended June 30, 2012 and 2011, respectively. Plan members received \$1.1 million and \$1.0 million in benefits for the fiscal years ended June 30, 2012 and 2011, respectively.

### **Funding Policy, Status, Progress, and Annual OPEB Cost**

Contribution requirements are established and may be amended by the Board of Governors of the Colorado State University System. CSU's annual OPEB cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. Fiscal year 2008 was the year of transition and CSU has elected to prospectively implement GASB Statement 45 resulting in the net OPEB obligation at the beginning of the year being set at \$0. For each of the plans, CSU has set aside funds to cover future benefits in varying amounts; however under GASB 45 in order to consider the assets available to the plan they must be



# Colorado State University System

## Notes to Basic Financial Statements

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segregated and restricted in a trust or equivalent arrangement. CSU's annual OPEB cost for fiscal year 2012 and the related information for each plan are as follows:

	<b>DCP Subsidy</b>	<b>PERA Subsidy</b>	<b>Rx Subsidy</b>	<b>LTD Subsidy</b>
Actuarial accrued liability (a)	\$ 28,917,000	54,696,000	2,752,000	13,059,000
Actuarial value of plan assets (b)	-	-	-	-
Unfunded actuarial accrued liability (a) - (b)	\$ 28,917,000	54,696,000	2,752,000	13,059,000
Funded ratio (a)/(b)	0.0%	0.0%	0.0%	0.0%
Covered payroll (c)	\$ 246,619,000	N/A	N/A	N/A
Unfunded actuarial accrued liability as a percentage of covered payroll [(a) - (b)]/(c)	11.7%	N/A	N/A	N/A
Contribution rates:				
CSU	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go	Pay-as-you-go
Participants	N/A	N/A	\$0 - \$99	N/A
			Based on eligibility	
Annual required contributions (ARC)	\$ 2,418,000	4,191,000	188,000	1,131,000
Interest on net OPEB obligation	288,000	441,000	14,000	25,000
Adjustment to ARC	(240,000)	(663,000)	(21,000)	(21,000)
Annual OPEB cost	2,466,000	3,969,000	181,000	1,135,000
Contributions made	(576,000)	(1,258,000)	(111,000)	(1,137,000)
Increase in net OPEB obligation	1,890,000	2,711,000	70,000	(2,000)
Net OPEB obligation - beginning of year	7,207,000	11,016,000	340,000	633,000
Net OPEB obligation - end of year	\$ 9,097,000	13,727,000	410,000	631,000
Percentage of OPEB cost contributed	23.4%	31.7%	61.3%	100.2%
Assets held within internal service funds - revocable trusts for future plan benefits	\$ 31,447,000	14,298,000	375,000	4,934,000

## Colorado State University System

### Notes to Basic Financial Statements

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CSU's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligations for fiscal year 2012 and the preceding years for each of the plans were as follows:

	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
DCP	6/30/2012	\$ 2,466,000	23.4%	\$ 9,097,000
Subsidy	6/30/2011	2,482,000	20.4%	7,207,000
	6/30/2010	2,415,000	23.2%	5,231,000
PERA	6/30/2012	3,969,000	31.7%	13,727,000
Subsidy	6/30/2011	3,980,000	31.3%	11,016,000
	6/30/2010	4,050,000	30.8%	8,283,000
Rx	6/30/2012	181,000	61.3%	410,000
Subsidy	6/30/2011	189,000	43.4%	341,000
	6/30/2010	183,000	79.2%	234,000
LTD	6/30/2012	1,135,000	100.2%	631,000
Subsidy	6/30/2011	1,176,000	87.6%	634,000
	6/30/2010	1,112,000	88.4%	489,000

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. OPEB liabilities as of June 30, 2012, are recorded in accrued liabilities and other noncurrent liabilities, as follows:

	DCP	PERA	Rx	LTD	Total
OPEB, current portion	\$ 1,012,000	1,901,000	410,000	631,000	3,954,000
OPEB, noncurrent portion	<u>8,085,000</u>	<u>11,826,000</u>	<u>-</u>	<u>-</u>	<u>19,911,000</u>
Total	<u>\$ 9,097,000</u>	<u>13,727,000</u>	<u>410,000</u>	<u>631,000</u>	<u>23,865,000</u>

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

### Actuarial Methods and Assumptions

Projections of benefits are based on the substantive plan and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs, if applicable, between CSU and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

	<b>DCP Subsidy</b>	<b>PERA Subsidy</b>	<b>Rx Subsidy</b>	<b>LTD Subsidy</b>
Valuation date	1/1/2011	1/1/2011	1/1/2011	1/1/2011
Actuarial cost method	Entry Age Normal	Projected Unit Credit	Projected Unit Credit	Entry Age Normal
Amortization method	Level Percent of Pay	Level Dollar	Level Dollar	Level Percent of Pay
Remaining amortization period	30 Years, open	26 Years, closed	26 Years, closed	30 Years, open
Asset valuation method	Unfunded	Unfunded	Unfunded	Unfunded
Actuarial assumptions:				
Investment rate of return	4.00%	4.00%	4.00%	4.00%
Inflation rate	3.00%	3.00%	3.00%	3.00%
Salary increase rate	4.00%	N/A	N/A	4.00%
Healthcare cost	8% initial,	8% initial,		
Trend rate	5% ultimate	5% ultimate	N/A	N/A

**(c) Other Post-Employment Benefits (OPEB)**

CSU-Pueblo – Retired faculty and exempt administrative staff are eligible to participate in the Colorado Higher Education Insurance Benefits Alliance Trust (CHEIBA). CHEIBA is a cost-sharing multiple-employer insurance purchasing pool, which allows for post-employment health coverage until the retiree is eligible for Medicare. The retiree is responsible for paying 100 percent of the health insurance cost. As of June 30, 2012, there were 21 participants in the plan, of which two were CSU-Pueblo retirees.

CHEIBA financial statements are prepared under accounting principles generally accepted in the United States of America using the accrual basis of accounting following Governmental Accounting Standards for a business type activity. The financial statements can be obtained by contacting: Human Resources, Colorado State University-Pueblo, 2200 Bonforte Blvd., Pueblo, Colorado 81001.

Contributions are recognized in the period due. Benefits and refunds are recognized and paid when due according to the participating plans. The fair value of the Trust's investments is based on quoted market prices from national securities exchanges.

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

**(d) Life Insurance Program**

During fiscal years 2012 and 2011, PERA provided its members access to a group decreasing term life insurance plan offered by Unum Provident. Active members may join the Unum Provident Plan and continue coverage into retirement. PERA retirees are not eligible to enroll in the insurance program. Premiums are collected by monthly payroll deductions or other means. In addition, PERA maintained coverage for members under closed group plans underwritten by Anthem Life, Prudential, and New York Life.

**(20) Compensated Absences Liability**

System employees may accrue annual and sick leave based on the length of service and subject to certain limitations regarding the amount that will be paid upon termination. The estimated liability of compensated absences for which employees are vested as of June 30, 2012 and 2011 was \$42.4 million and \$41.8 million, respectively.

Overall, expenses increased for the fiscal year ended June 30, 2012 by \$629 thousand and decreased for the fiscal year ended June 30, 2011 by \$404 thousand, for the estimated compensated absences liabilities.

**(21) Direct Student Financial Aid Reporting**

During the fiscal years ended June 30, 2012 and 2011, CSU and CSU-Pueblo participated in the federal government's Direct Loan Program. This program provides loans from the federal government to qualifying students and their families for educational purposes. While CSU and CSU-Pueblo help students obtain these loans, the University is not a party to the loans and is not responsible for collection of monies owed or for defaults by borrowers.

The gross amounts of Direct Loans disbursed during the fiscal years ended June 30, 2012 and 2011 were \$184.9 million and \$172.5 million, respectively.

## Colorado State University System

### Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

**(22) Scholarship Allowance**

Tuition, fees, and auxiliary revenues and the related scholarship allowances for the year ended June 30, 2012 were as follows:

	<b>2012</b>		
	<b>Tuition and Fees</b>	<b>Auxiliary Revenues</b>	<b>Total</b>
Gross revenue	\$ 438,043,000	143,959,000	582,002,000
Scholarship allowances:			
Federal	31,332,000	775,000	32,107,000
State	6,520,000	849,000	7,369,000
Private	383,000	371,000	754,000
Institutional	60,146,000	2,584,000	62,730,000
Total allowances	98,381,000	4,579,000	102,960,000
Net revenue	\$ 339,662,000	139,380,000	479,042,000

Tuition, fees, and auxiliary revenues and the related scholarship allowances for the year ended June 30, 2011 were as follows:

	<b>2011</b>		
	<b>Tuition and Fees</b>	<b>Auxiliary Revenues</b>	<b>Total</b>
Gross revenue	\$ 386,160,000	139,922,000	526,082,000
Scholarship allowances:			
Federal	32,971,000	1,352,000	34,323,000
State	7,334,000	994,000	8,328,000
Private	305,000	291,000	596,000
Institutional	48,666,000	2,402,000	51,068,000
Total allowances	89,276,000	5,039,000	94,315,000
Net revenue	\$ 296,884,000	134,883,000	431,767,000

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

### (23) System Foundations and Endowments

As discussed in Note 1(c), the Foundation was incorporated into the System's financial reporting entity during fiscal year 2004 as a result of adopting GASB Statement No. 39. The Colorado State University Research Foundation (CSURF) and the Colorado State University – Pueblo Foundation (CSU-Pueblo Foundation) did not meet the requirements of GASB Statement No. 39 to be incorporated into the System's financial reporting entity.

#### (a) *Colorado State University Research Foundation*

CSURF is a private, nonprofit Colorado corporation established in 1941 to aid and assist the institutions governed by the Board of the System in their research and educational efforts. CSURF officers are appointed annually by the Board of Directors. The Board of Directors consists of five voting members and two nonvoting members. No person who is an employee of CSU or CSU-Pueblo is eligible to serve as an officer of CSURF or as a voting member of the Board.

Colorado State University Ventures (CSUV) is a wholly owned subsidiary of Colorado State University Research Foundation. CSUV is used to assist in the promotion, development, improvement and expansion of the facilities and programs of the Colorado State University System (System). The sole voting member of this nonprofit corporation is CSURF.

The major sources of CSURF revenues are royalties, rents, management fees, licensing fees, and administration fees. The support provided by CSURF to the universities includes patent and licensing management, equipment leasing, municipal lease administration, debt financing through mortgage debt service, and land acquisition, development, and management. During the fiscal years ended June 30, 2012 and 2011, royalty revenues equaled \$1.1 million and \$1.3 million, respectively, and expenses were \$744 thousand and \$879 thousand, respectively.

At June 30, 2012, CSURF's debt to provide buildings for use by the universities was \$7.2 million.

At June 30, 2012, the assets of CSURF consisted of:

Cash and current assets	\$ 3,266,000
Property and equipment	14,113,000
Other assets	<u>10,595,000</u>
Total assets	<u>\$ 27,974,000</u>

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

At June 30, 2011, CSURF's debt to provide buildings for use by the universities was \$5.1 million.

At June 30, 2011, the assets of CSURF consisted of:

Cash and current assets	\$ 2,825,000
Property and equipment	11,056,000
Other assets	<u>9,794,000</u>
Total assets	<u><u>\$ 23,675,000</u></u>

Audited financial statements of CSURF are available at 410 University Services Center, P.O. Box 483, Fort Collins, CO 80522.

**(b) Colorado State University – Pueblo Foundation**

CSU-Pueblo Foundation was established in 1954 as an independent 501(c)(3) nonprofit corporation. The CSU-Pueblo Foundation was formed to advance and assist in the development, growth and operation of CSU-Pueblo. Twenty-seven trustees of the CSU-Pueblo Foundation are elected by members of the CSU-Pueblo Foundation. In addition, one officer of CSU-Pueblo, and one member of the Board of Governors serve as nonvoting, ex-officio members.

CSU-Pueblo Foundation recorded \$2.2 million and \$1.7 million in transfers of gifts and other assets to CSU-Pueblo during fiscal years ended June 30, 2012 and 2011, respectively. During the same periods, CSU-Pueblo provided \$49 thousand and \$256 thousand, respectively, in in-kind support to CSU-Pueblo Foundation for fiscal years ended June 30, 2012 and 2011. Further, CSU-Pueblo did not incur any expenses on behalf of CSU-Pueblo Foundation during the fiscal years ended June 30, 2012 and 2011.

At June 30, 2012, the assets of CSU-Pueblo Foundation consisted of:

Cash	\$ 2,557,000
Investments	21,891,000
Property and equipment	13,000
Other assets	<u>1,777,000</u>
Total assets	<u><u>\$ 26,238,000</u></u>

## Colorado State University System

### Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

At June 30, 2011, the assets of CSU-Pueblo Foundation consisted of:

Cash	\$ 2,611,000
Investments	17,743,000
Property and equipment	17,000
Other assets	<u>5,847,000</u>
Total assets	<u>\$ 26,218,000</u>

CSU-Pueblo Foundation's sources of revenue are interest earned on bank accounts and investments, donations, rental property, and fundraising activities. CSU-Pueblo Foundation had \$1.6 million and \$1.0 million in outstanding liabilities and \$24.7 million and \$25.2 million in net assets as of June 30, 2012 and 2011, respectively.

Audited financial statements may be obtained from CSU-Pueblo's Foundation office at 2200 Bonforte Boulevard, Pueblo, CO 81001-4901.

(c) ***CSU-Pueblo Board-Designated Funds***

CSU-Pueblo manages two board designated funds. These funds' assets and activity are reported as part of the System. Both funds retain 20 percent of earnings each year to build the corpus of the fund and transfer 80 percent of the annual earnings to CSU-Pueblo as designated by the Board. The first board-designated fund was established in 1994 from the proceeds of land sales in the Walking Stick Development immediately west of the campus. The sale of excess land adjacent to the university campus provides resources that support the academic mission of CSU-Pueblo. To date, CSU-Pueblo has sold 16 parcels of land with the proceeds from the sales being placed in a board-designated fund.

The Walking Stick Fund assets at June 30, 2012 consisted of:

Cash	\$ 5,352,000
Land	<u>41,000</u>
Total assets	<u>\$ 5,393,000</u>



## Colorado State University System

### Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

The Walking Stick Fund assets at June 30, 2011 consisted of:

Cash	\$ 5,363,000
Land	<u>41,000</u>
Total assets	<u>\$ 5,404,000</u>

On June 30, 2000, CSU-Pueblo sold the KTSC-TV television license and certain related assets. The proceeds of the sale have been placed in a board-designated fund to support the maintenance of the Buell Communication Center building, telecommunications equipment associated with the Mass Communications program of CSU-Pueblo, and scholarships.

The KTSC Fund assets at June 30, 2012 consisted of:

Cash	\$ 2,536,000
Due from other funds	<u>27,000</u>
Total assets	<u>\$ 2,563,000</u>

The KTSC Fund assets at June 30, 2011 consisted of:

Cash	\$ 2,488,000
Due from other funds	<u>53,000</u>
Total assets	<u>\$ 2,541,000</u>

**(d) INTO CSU, LLC**

INTO CSU, LLC is a limited liability company jointly owned by CSURF and INTO USA, LLC. CSURF and INTO USA, LLC each own 50 percent of the common units. INTO CSU, LLC has entered into a service agreement with Colorado State University and INTO University Partnerships Limited (IUP) whereby INTO CSU, LLC will manage an international student center, located on campus and, in connection with the services of IUP, be the exclusive provider of marketing and student recruitment services for the INTO CSU programs.

As part of the Services Agreement, CSURF agreed to loan the Joint Venture up to \$1,500,000. The promissory note matures February 2027 with monthly interest payments of 5% due beginning March 2017. In connection with the agreement for CSURF to loan funds to INTO-CSU, LLC, the University has agreed to reimburse CSURF for net funds loaned to the joint venture. At the end of the year, the University has booked a receivable for \$252,500 due from CSURF relating to amounts that have been loaned to the joint venture.

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

### (24) State Support

In fiscal year 2006 state support for higher education changed with the implementation of the College Opportunity Fund. As a result of this legislation, which was adopted in S.B. 04-189 passed in the 2004 state legislative session, the state no longer provides a direct state general fund appropriation to the System. Instead, state support is provided to the System in the form of fee for service contracts with the State for the delivery of special programs, graduate programs, and high cost/high demand programs. In fiscal years ended June 30, 2012 and 2011 the System received \$67.9 million and \$87.6 million, respectively, in State fee for service contract revenue.

State support was also provided to the System in the form of student tuition stipends provided to students by the state College Opportunity Fund. In fiscal years ended June 30, 2012 and 2011, stipends were provided to students attending classes at Colorado State University and Colorado State University-Pueblo in the amount of \$38.5 million and \$38.4 million, respectively.

### (25) Contingencies

Contingencies include those in which the System is a defendant in several lawsuits including various claims related to activities or employees of the System. The System believes that final settlement of matters not covered by insurance will not materially or adversely affect its financial condition or operations.

#### **Equine Reproduction Laboratory**

On July 26, 2011, a fire destroyed the Equine Reproduction Laboratory including reproduction inventory being stored on behalf of approximately 200 clients. On December 30, 2011, clients were notified that CSU's property insurance policy did not cover the destroyed inventory and as a result, many clients submitted a notice of claim to pursue legal action against the University for the destroyed inventory. In total, 40 notices of claims have been submitted, which in aggregate, assert claims exceeding \$13.5 million and a catch-all notice of claim in the amount of \$35 million was filed purporting to reserve rights in the event a class action is initiated. One lawsuit has been filed against CSU alleging liability for damage to a client's inventory.

It is CSU's position that the insurance policy in place at the time of the fire provides coverage to the extent of CSU's legal liability for physical loss or damage, and that if CSU is held to be legally liable for such loss or damage to client's inventory, the insurance carrier is responsible for paying the amount of such judgment. The insurance carrier has asserted that it has the obligation to pay only the value of the clients' interest in the inventory, which may be less than the amount of any such judgment.

CSU has denied any liability and will continue to defend any such claims. CSU's potential liability is difficult to estimate and no liability has been recorded in the financial statements.

# Colorado State University System

## Notes to Basic Financial Statements

Years Ended June 30, 2012 and 2011

### Government Grants

The System receives significant financial awards from federal and state agencies in the form of grants. Expenditures of funds under those programs require compliance with the grant agreements and are subject to audit. Any disallowed expenditures resulting from such audits become a liability of the System. In the opinion of management, such adjustments, if any, are not expected to materially affect the financial condition or operations of the System.

### (26) Subsequent Events

On June 6, 2012, the Governor signed House Bill 12-1283 transferring from CSU to the Department of Public Safety effective July 1, 2012 all funds, monies, positions of employment, personnel, any claims and liabilities, and personal property that were principally directed to fire and wildfire preparedness, response, suppression, coordination, or management associated with activities of the Colorado State Forestry Service (CSFS). All other activity of CSFS will remain at CSU. At June 30, 2012, CSU had recorded the following assets and liabilities relating to this activity that will transfer:

Cash	\$ 6,764,000
Accounts Receivable	44,051,000
Inventories	155,000
Vehicles & Equipment (NBV)	704,000
Accounts Payable	45,484,000

In fiscal year ended June 30, 2012, revenues and expenses relating to activities transferred to the Department of Public Safety were approximately \$65.9 million and \$68.3 million, respectively.

During August, 2012, the University received an in-kind gift of software with a commercial value of \$9.5 million. The software will be used in the University's Department of Design & Merchandising.

# Colorado State University System

## Required Supplementary Information

Colorado State University Retiree Medical Premium Refund Plan (DCP Subsidy),  
PERA Subsidy, Umbrella Rx (Rx Subsidy) and Long Term Disability  
Insurance Subsidy (LTD Subsidy)

### Schedule of Funding Progress

June 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL)- Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<b>DCP Subsidy</b>						
1/1/2011	\$ -	\$ 28,917,000	\$ 28,917,000	0%	\$ 248,228,000	11.6%
1/1/2009	-	25,188,000	25,188,000	0%	238,827,000	10.4%
1/1/2007	-	22,080,000	22,080,000	0%	199,794,000	11.1%
<b>PERA Subsidy</b>						
1/1/2011	\$ -	\$ 53,177,000	\$ 53,177,000	0%	-	0.0%
1/1/2009	-	54,271,000	54,271,000	0%	-	0.0%
1/1/2008	-	54,012,000	54,012,000	0%	-	0.0%
<b>Rx Subsidy</b>						
1/1/2011	\$ -	\$ 2,832,000	\$ 2,832,000	0%	-	0.0%
1/1/2009	-	2,899,000	2,899,000	0%	-	0.0%
1/1/2008	-	4,267,000	4,267,000	0%	-	0.0%
<b>LTD Subsidy</b>						
1/1/2011	\$ -	\$ 13,017,000	\$ 13,017,000	0%	-	0.0%
1/1/2009	-	12,219,000	12,219,000	0%	-	0.0%